the Freeman

Ideas on Liberty

NOVEMBER 1982

The Genial Mr. Nock

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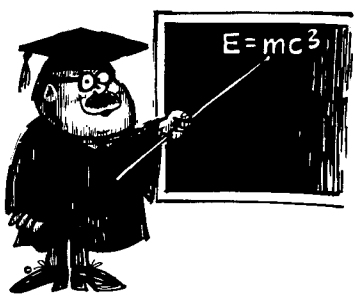
Ridgway K. Foley, Jr.

The Fine Art of Cheating



PERIODIC REVELATIONS of academic scandal enliven collegiate communities and titillate followers of current events. Every few years, the popular press reveals a consortium between university ballplayers and professional gamblers designed to predetermine the outcome of school athletic contests to benefit the knowledgeable inside bettors, to "beat the point spread." Recently, particularly on the West Coast, other instances of fraud and deceit have come to the fore. "Student athletes" receive college credit for unattended classes often held at non-existent institutions or in places little more than diploma mills. Stand-ins take tests and write term papers for the pampered few. Teachers award high grades for little effort. Coaches offer illicit monies to encourage the favored to participate in sports for the dear old alma mater. Grades or degrees in exchange for sexual, political or monetary favors are not beyond the realm of reality.

Righteous indignation comes into immediate conflict with pious justification concerning these endeavors. The offended rail against unethical conduct, only to be met with excuses from the groves of academe belaboring the fine educational efforts put forth on behalf of the college community. Poverty-stricken and disadvantaged students and over-

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worked, underpaid faculty members apparently encounter great difficulty in differentiating right from wrong and, in any event, focus on these minor misadventures obscures the wonders worked by public education greatly benefiting the world.

A Sacred Cow

Certain subjects reside beyond the bounds of fair comment in this topsy-turvy world: challengers to these unassailable institutions and myths find themselves pilloried by the press and ostracized by polite society for even suggesting that the emperor traverses the highways and byways stark naked. Public education represents one of those sacrosanct subjects above reproach. Nevertheless, at the risk of censure and misunderstanding, allow me to opine that the American public receives, at best, a dime's worth of education for every dollar spent, that the myriad examples of common cheating portend a much more serious moral ill, and that public education, far from constituting a Heaven-ordained precept, is just plain ineffective, indifferent and wrong. Moreover, attempted reforms (like the voucher system) do nothing more than perpetuate the evil rather than scourge it.

The true victim of academic excess will not be found by the unobservant many; the real injured parties are those honest, upright, producing members of society who involuntarily contribute part of their privately-created property to the plunderers who exact tribute and transfer that wealth into the maw of public education. Certainly the honest student or teacher loses too, but one cannot afford much sympathy for willing participants in misdoings; the seminal harm befalls the simple taxpayer-citizen who funds the transfer payments so that rowdy, lazy and rotund muscle-men live well and receive college degrees for learning how to move chairs in an auditorium.

The depth of the art of cheating in the twentieth-century educational system taxes the fainthearted. Many students receive tuition waivers, book allowances and housing grants (not to mention food stamps) from the state or federal government. Their classmates collect reduced interest or free student loans, most of which are never repaid. Tuition defrays but a slight share of the cost of modern teaching; the remainder emanates from a variety of federal, state and local subsidies. Professors procure a plethora of tax monies by way of research grants, often employed in the most abysmal, wasteful or shocking endeavors. Schools intercept other forms of public funding to facilitate compliance with various entitlement and social policy programs mandated by government. In short, an endless litany of perversions, diversions and boon-

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doggles blemish the once-fair visage of the grand old dame of education.

Controls Follow Subsidies

Stealthy but iron-fisted state controls accompany the current mania of intervention in the educational process: the carrots of grants and loans convoyed by the sticks of sanctions and penalties for noncompliance. Thus, a furor arises because the federal government in its egalitarian wisdom decrees equal funding and opportunity for male and female sporting events, participants and teams. Detractors of this lofty premise point out that college football and basketball—played by men—produces high revenues; therefore, these grieved alumni, fans and participants decry the fundamental unfairness in taking monies generated by male sports to fund women's teams. By a parity of reasoning (apparently obscure to the multitudes) is it not also fundamentally unjust to plunder the taxpayer-citizens to support athletic contests or, indeed, schooling for other people? If it is wrong to pay halfbacks to run off tackle, is it not equally wrong to compensate scholars from public monies to study the mating instincts of armadillos?

The aspect of governmental control exceeds the simple examples employed. The state pervades the entire educational process: it decrees who shall teach, who shall attend, what shall be taught, and what subjects are anathema; in a phrase, it determines the participants and sets the agenda. It punishes noncompliance or deviation by a series of sanctions, from the withdrawal of grants to the revocation of accreditation to the threat of imprisonment of dissenters. With the aid of a compliant media, those who jostle the public educational process are shamed, ridiculed or mistreated. Once tax dollars are expended for a stated public purpose, one can make a stronger case for implementation of governmental controls to assure adherence to announced state social policy and the avoidance of apparent unfairness or discrimination. The next logical step: coerce into compliance those few institutions which accept no state recompense whatsoever and which merely wish to teach their charges to follow their own stars.

Thus, a perceptive observer can chart issues on a continuum: (1) What should be done about overt cheating in public education? (2) Should some students be permitted a degree for attendance upon courses without intellectual content? (3) If nonchallenging courses exist, should public funds be employed in any manner in that endeavor? (4) To what extent should state social policy derive enforcement from the public school arena? (5) Should the government control education in the purely

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private and voluntary realm? (6) What constitutes the proper role of the state in the teaching process?

Each of these questions (and the myriad sub-issues intervening on the scale) deserves separate treatment on the merits, increasing as they do in difficulty and importance from beginning to end. The modern nostrums prescribed for the earlier inquiries constitute mere placebos which hinder analysis by obfuscating the seminal concern expressed by the last question. Thus, the much-heralded voucher system would provide a tax credit or similar subsidy allowing parents to choose the schooling for their offspring; yet, that system, in all of its varieties, would continue to assign the state a central role in the learning process: the government would merely broaden the agenda, but it would still decree the boundaries and the participants, and it would proceed to transfer wealth involuntarily from the productive into the educational process.

Again, the debate over content (be it sexual education, evolution versus creationism, Biblical studies, or something else) merely constitutes a skirmish over who shall control the calendar and the substance; it does nothing to dethrone government and return it to its proper place. Furthermore, the recent attempts to remove tax-exempt status from institutions not currying favor with the educational establishment represent one more attempt to police substance.[1]

Defenders of public education assure all who will listen that Herculean efforts by the faculty and administration have wrought wondrous results, leading to the conclusion that modern students are better, brighter, and more learned than anyone else. Pure bunk! The public educational miasma stifles initiative and dampens creativity so that those lucky few who do learn anything do so in spite of the system and not by reason of it. The adherents simply confuse cause and consequence and, more importantly, by virtue of their vested interests they are unable to judge critically.

Standards Have Declined

The fact of the matter is that today's standards and students have declined dangerously in the main; the best and the brightest cannot read, write, spell, divide or think analytically; they receive pap not challenge, and they respond in illiterate lockstep. Ask any discriminating employer who must interview applicants for positions of promise and trust: the mill run may be nice folks but they are woefully ill prepared to meet and surmount intellectual challenges.

Moreover, another more subtle and sinister attribute mars modern public education: the thwarting by the state of dissent. Oh, certainly, we

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mouth the pleasing phrases of the First Amendment and Milton's *Areopagitica,* but when it comes down to the nub of the matter, our children learn not critical analysis but unquestioning recital of faded fact and patent fable.

For example, how many economic departments across this land still preach the discredited Keynesian faith? Or, more to the point, how many such classrooms see a fair comparative exposition of Austrian, Keynesian and monetarist ideas? Again, in political economy, how many students receive training solely from professed Marxists to the exclusion of even an introduction to the axioms of the private property order? Or, if one of one hundred faculty members pronounces the merits of a voluntary society, is he well qualified and amply endowed in intellect, or more likely, is he a ridiculous and inane caricature of a true believer in liberty? These questions bear repeating in all disciplines.

The frightening truth: by and large, public schools teach values and theories which perpetuate that system and which sanctify the precepts of those in power and, by reason of state mandate, no discerning student is free to go elsewhere in a quest for knowledge. The inquiring pupil must tolerate and survive and attempt to overcome the babble which assails his eyes and ears in every classroom.[2]

Look to the Arguments

Proponents of public education advance three arguments in support of the state school: (1) the education of the young constitutes a proper and inalienable function of government; (2) without state intervention into the realm of education, most pupils would go untaught; and (3) since society as a whole benefits from an educated populace, all persons should contribute toward the teaching of the progeny of the few. Reflection reveals that all of these reasons lack merit.

First, consider the appropriate functions of government: education is not among them. The state—the public monopoly of force—is suited only to channelling conduct by means of coercion. Destructive elements are ill suited to creative challenges. Force proves effective only in restraining undesirable conduct, not in occasioning virtue. As Edmund Opitz remarks, "to educate" is not a transitive verb. Learning requires an adept teacher and a willing student. Compulsion plays no vital or effective role in the process. Hence government possesses neither a natural aptitude nor a necessary adroitness regarding the enlightenment phenomenon.

Second, no reason exists to suppose that children would learn less in a private and voluntary system of education. Leonard Read has noted recently that learning occupies a high point on the value scale of most par-

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ents from every walk of life, so high in fact that no one when queried ever advised him that they would forgo education of their offspring in a free society featuring a voluntary school system.[3]

Surely the structure, content and performance of a freely functioning private school system would differ and improve upon the present oppressive endeavor: after all, freedom has the open texture which accommodates creativity and fosters ingenuity. Learning would develop in untold and unpreordained paths; those who desire to improve would find great benefits in the system whereas those who merely take up space by reason of illogical laws would find another enterprise—such as honest toil for fair recompense—more to their liking.

Perhaps those athletically inclined individuals would continue to delight their partisans by their periodic gridiron feats or court exploits, but it seems likely that school teams would soon revert to students playing ball for fun and recreation, not as a subsidized and masked business fortified by the taxpayers, many of whom care naught for the weekend antics of Saturday's heroes. In short, those who can and wish to learn would do so, without the immoral application of force to compel endowment of the system by unwilling participants.

Third, should society (or, more correctly the productive individuals in society) pay for education as a matter of justice? The argument proves too much. Society represents an open-ended exchanging fraternity which fosters trade and exchange of goods, services and ideas, as well as warmth, friendship and harmony. Each person in a society benefits from free exchanges of value with others, yet that very advantage would be substantially abased by the introduction of force in an atmosphere which requires liberty.

Voluntary Exchange Is Best

Voluntary exchange of value diminishes where the element of coercion creeps in: compulsion restrains the free development of ideas and predetermines the end, thereby shutting out the enormous possibilities for creative activity. Again, in a shortsighted sense, A benefits when B learns to be a doctor, but A pays for that benefit voluntarily by exchanging some of the value he creates for the application of B's skills. Each person gains from the development of his or her virtuosity; who can employ some sort of social calculus to decide whether A benefits more than B does when the latter secures his diploma in surgery?

Furthermore, formal education does not serve as the sole or even the highest means of personal development. All of us know of wonderful people who mastered a craft or im-

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parted great virtue and knowledge without a degree or, indeed, with very little schoolhouse training. Each person or family should choose the type and extent of nurture from an ever-widening shelf of illuminating choice. Society, and the individuals in society, benefit the most from the vast creativity fostered by such a reign of freedom.

Rampant cheating and chicanery in the academy serve not only to betray proper morality but also to disclose a greater malevolence within. Public education induces such wickedness simply because it is constructed on wrong principles: force, not freedom. In a free society, the sting abates and true wisdom flourishes. ⊕

—FOOTNOTES—

[1]See, e.g., Kaus, Robert M., "How is Bob Jones U. Like Ms. Magazine," *The American Lawyer* 63–64 (April 1982). Of course, the key issue of whether *any* institution should receive tax-exempt treatment is never addressed. See my "The Elements of a Fair System of Taxation," *The Freeman*, September, 1982.

[2]On my venture toward degrees in "higher education," I developed an interesting technique: I divided my notebooks into two parallel columns; on the left, I wrote down that which I needed to regurgitate to pass the course; on the right, I took notes of thoughts which, for me, approximated the truth. The content of the competing columns differed vastly! I have found the right hand section of help in life after college.

[3]See Read, Leonard E., "One Way to Assess the Future," appearing as Chapter 25 in *How Do We Know?* (The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1981), 105–109.

IDEAS ON LIBERTY

Wise Strategy

TRYING to answer an involved question about some socialist panacea in one or two minutes is hopeless and unfair by the test of intellectual justice, for the same reason. Unless ample time is available and willingly offered by those who will be judging your case, it is probably better not to enter that particular courtroom at all; it would be better to refuse to accept its jurisdiction. In other words, it would be better to refrain from offering your views on all these questions at that time and place.

The wise libertarian is one who uses his time to the best advantage, who employs whatever honest strategy will best defend the concepts he holds dear. To do that is not cowardice. Why suffer bruised shins battling the keepers of the sacred cows in an arena of injustice and disadvantage while so many fertile fields for libertarian talent remain untilled?

F. A. HARPER, "Sacred Cows and Bruised Shins"

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Henry Hazlitt

Keynesism in a Nutshell

Henry Hazlitt, a frequent contributor to *The Freeman,* has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson,* originally published in 1946 and since translated into eight languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

JOHN MAYNARD KEYNES was, basically, an inflationist. This has not been clearly recognized because he never spelled out, step by step, the consequences of his proposed remedy for unemployment and depression. That remedy was deficit spending by the government. He recognized that increased government spending paid for by equally increased taxation would not "add purchasing power." The increased taxation would offset any "stimulus" that the increased government spending would provide. What counted, he confessed, was the government deficit. But he failed to take his readers beyond this step. How would that deficit be financed? Either the money would have to be borrowed, or new (paper) money or credit would have to be created. But if the money were borrowed, then the previous spending stimulus would be reversed by a deflation when the borrowing was repaid. The only thing to prevent this reversal would be to allow the new spending to remain outstanding. In other words, the Keynesian solution to every slowdown in business or rise in unemployment was still another dose of inflation.

I may point out (if that is still deemed necessary in this inflationary era) that no inflation of which we have historical knowledge resulted in sound and continued business expansion but only in currency depreciation, a wanton redistribution of profits and losses, disorganized output, and economic demoralization. This has been true whether we begin with the coinage debasement of ancient Rome or the paper money scheme of John Law in 1716.

The lessons of inflation are soon forgotten. They apparently must be relearned in every generation.

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Bill Anderson

ECONOMIC DEMOCRACY

DEMOCRACY is a hallowed word in our society. Its very name denotes free choice, relief from oppression, self-determination, civil liberties and rights of expression. Indeed, the word, according to theologian Michael Novak, is considered "so favorable that even the least democratic of nations insist upon calling themselves by the name which most condemns them."[1] Yet, at the same time, it is a misused term, one that all too often brings semantic confusion rather than enlightenment to the social agenda. "Economic Democracy" is such a term, a "hook" that gives the promise of liberty in the marketplace while in reality it promotes the opposite: collectivism.[2]

Economic Democracy in the 1980s comes in many forms. There is a well-known political movement concentrated mostly on the West Coast that has received much publicity not only for its doctrines of political economy but also for the celebrity status of many of its leaders and supporters.[3] The term is also used by politicians and public figures not officially associated with the western political movement, but who "favor some sort of plan in which workers have a share in either the management of their industries, or profits, or both."[4] Advocates of Economic Democracy have also been called social democrats.

Whatever the degree of associa-

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tion, one can assume that those beholden to the term Economic Democracy have a common belief about the economy and how it should be run: the marketplace, they say, should be taken from the control of private individuals—or "private interests"—and placed in the hands of democratically-elected legislators and officials who will steer it in the direction of the "public interest." Now, the use of "democracy" to promote forms of collectivism is not new. For example, Upton Sinclair, the writer whose works had a vast impact on the Progressive Movement of the early 20th Century, once said:

> Of course, when I talk to anybody important like Henry [Ford] I have only one thought in mind, and that is to make a socialist out of him. So I told him [Ford] what I thought were the responsibilities of the great masters of industry and how industry must ultimately be democratized. It has been my life thesis that autocracy in industry is absolutely incompatible with democracy in politics, and that the two struggle with each other and one or the other will win. I wanted democracy to win, of course.[5]

Sinclair's remarks, along with the dogma of today's followers of Economic Democracy, bring many important questions to mind, the first being: Are they right? Is the free capitalist system in reality a system of autocracy that operates within—and constantly struggles with—the framework of democratic politics? One might also ask: Is collectivism as part of a system of democratic politics the social arrangement that most allows the common characteristics of democracy—free choice, self-determination, and the like—to operate within an economy?

In answering these questions and in critiquing the movement of Economic Democracy, one cannot just stop with exposing the fallacies of neo-collectivism. It does no good simply to prove an opposing ideology as wrong; one must also demonstrate his own ideas are correct, or at least nearer to the truth. Indeed, the burden upon adherents to the free market is great, for they must show that an economic system which depends upon individual ownership, individual initiative and limited government is compatible with a political system which emphasizes pluralism, public accountability and equality under the law.[6]

Collectivist Fallacies Exposed

Socialism, central planning and other forms of collectivism have been thoroughly unmasked by the world's most able economists from Adam Smith to Ludwig von Mises to Milton Friedman. It is unnecessary to retrace all their devastating arguments against socialism, since the volumes written against this economic heresy explain collectivism's shortcomings far better than can be done in this short essay.

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However, it might be valuable to deal with at least one major fallacy of collectivism, while also examining the claim that Economic Democracy, because it operates within a sphere of political free choice, is the logical extension of political freedom into the economy.

As Lawrence Reed has aptly noted, forms of collectivism adhere to numerous economic fallacies.[7] Perhaps the greatest fallacy of collectivists is their assumption of *production for its own sake, that production is somehow more important than consumption.* As Adam Smith once pointed out, the sole end of production is consumption. In other words, people produce in order to consume.

But the dogma of those involved in the Economic Democracy movement (and collectivist movements before them) deals with individuals in society not as consumers or recipients of goods and services, but as *employees,* or, to use Marx's terms, workers or proletariat. What concerns the neo-collectivists is not the quality of goods and services produced, but rather *how* they are made, *where* they are made, and *who* produces them. For example, numerous Economic Democracy lobbies are attempting to convince lawmakers to create laws that make it difficult, if not impossible, for employers to close obsolete, noncompetitive factories.[8] That the products created in such outdated plants are not competitive in the marketplace is of little concern to these people. What matters to them is that employees not lose their jobs because of economic dislocations.

To deal with the inevitable problems of less-expensive, foreign-made goods competing with domestic products made in outdated plants kept open by fiat, the Economic Democracy lobbies also support high protective tariffs to discourage consumers from buying abroad.[9] Of course, the damage done to domestic exporters by the imposition of tariffs would also be a serious problem, although one can most likely assume that industries hurt under those circumstances would receive government subsidies. In the end, consumers—who are also taxpayers and employees—would be deprived of freedom of choice, along with a goodly share of their incomes.

Workers Are Consumers

Other social plans that ultimately divide an economy into employers and employees again miss the fundamental point of production: *the final purpose of production is consumption.* To ignore that fact is fatal, for a productive, competitive economy cannot exist in the framework of a legally static society. When production is held to be more important than consumption, the workers themselves, supposedly protected by restricted legislation, cannot truly

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enjoy the fruits of their own labor. After all, workers, too, are consumers. One ultimately works so that he or she may eat and possibly enjoy the finer things of life. Few persons work just for the privilege of staying busy.

However, Economic Democracy adherents may argue that a person's life, his very being is tied up in his work. No doubt, that is true in part. Most persons find work that they believe fits their own goals and personalities. But the very quality of their work is dependent upon the innovation and creativity that are stifled when creative, entrepreneurish outlets are blocked by the law.

For example, few steel workers would prefer the hot, dangerous plants of the late 19th century to the modern facilities of today. Likewise, most automobile workers find the modern assembly line far superior to the monotonous, labor-intensive conveyor process that was dominant in the days of the Model T. The improvements in those factories, and, indeed, in most areas of production are due not to following the laws of legislatures but rather to following the laws of supply and demand. Modernization has come because economic progress and innovation have demanded it. Of course, some workers have been temporarily displaced in the process of modernization, but in the long run workers have benefited not only as employees but also as consumers from the very system that many say runs counter to their best interests.

The Assault on Capital

It can well be argued that labor unions have often sought to suppress the introduction of work-saving capital (which often makes the workplace safer) in order to preserve their power—all for the short run, of course. And, indeed, capital is one of the targets on the Economic Democracy "hit list," as collectivists seek to make industrial plants more labor-intensive.[10] The suppression of capital, unfortunately, has perverse effects upon those who are on the bottom rungs of the economic ladder. For one, to suppress capital to keep industries labor-intensive also tends to suppress wages, since capital creates wealth and rising wealth is what brings high wages. Secondly, by keeping wages low and basic industries labor-intensive, such policies retard the growth of the service economy, including meaningful jobs in medical care, education and recreation.[11]

Thus, by assaulting capital, proponents of Economic Democracy actually *lessen* options of employment for workers and retard consumer choice, which is the antithesis of their stated goals. The economic collapses of socialist countries such as Tanzania, China and others that have followed policies of production for its

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So effectively did muckrakers mingle fact and fiction, reporting and righteous indignation, open description with covert prescription that the historian who would disentangle the reality of these years from the myth has a formidable undertaking.

There were movements, too, which took up the cudgels for collectivism and helped to spread these ideas. Prominent among these was the Social Gospel movement. Religion, which had long offered the most profound bases for individual liberty, was substantially changed as a result of this movement. Out of moral conviction, out of concern for social and economic conditions, under the influence of the theories of evolution and the sociological findings of the effect of environment upon men, preachers and thinkers formed their thought and started the movement.

Instead of being individualistic, this movement was sparked by men who conceived of society as an organism. The life of an individual, they held, is inextricably bound up within this organic unity.

Clarence B. Carson, *The Fateful Turn*

own sake are grim reminders that economic laws must be obeyed—or else.

However, as Sinclair argued, is not socialism or Economic Democracy more compatible with political democracy than free market capitalism? After all, Sinclair and present-day Economic Democracy adherents argue, is not business today just an autocracy run by a few men who sit in the boardrooms of New York and Chicago and collaborate with the Congress and the Presidency to control the lives of most individuals?

Such beliefs—and they are legion today—demonstrate a profound misunderstanding not only of capitalism, but of democratic socialism as well. First, and most important, socialism, whether or not it is enforced by democratic means, is not democracy in the marketplace because consumers are ultimately deprived of free choice, or at least their choices are limited. Because socialism operates on the premise that production is more important than consumption, *existing* producers are usually favored over consumers,

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which means tariffs or import quotas, restrictions for new entries in the marketplace and policies to enhance the power of labor unions.

An excellent example of this can be seen in the Western European steel industries. Last year, those industries combined, including both nationalized and subsidized private firms, lost more than *$2 billion,* which, in essence, means that Europeans were forced to lower their standards of living for the privilege of producing steel.[12] European steel company executives and members of steel-making unions were no doubt pleased by their governments' policies of subsidizing losses and "protection" from steel products of other nations, but the real costs of such government plans were borne by European taxpayers and consumers, who were given no choice in the matter.

While it is true that in a social democracy, voters are free to choose the politicians who then choose the economic planners, once the planners hand down their economic dictums, those policies then become law. Voters, who are also consumers, are not legally free to break those laws. Therefore, the exercise of free choice at the political polls ultimately leads to either a lessening or deprivation of free choice in the marketplace. Of course, consumers, when faced with legislation that impedes upon their free economic choice, often choose to become lawbreakers, which brings underground economic activity that is not just confined to dictatorial socialist states such as Tanzania, the Soviet Union and China, but also to politically-free democratic socialist nations such as Sweden, Italy, France, Great Britain and even the capitalist United States.

The Underground Economy

The implications of the ever-increasing amounts of illegal business activities are sinister, for such underground transactions undermine respect for law, order and the very foundations of trust that undergird a society. And yet, this spurning of the law happens precisely because of the laws that are passed supposedly to make an economy more just, more humane and more productive. In reality, most restrictive economic legislation is not created to improve economic prospects for consumers, but rather to satisfy members of politically-strong special interest groups.[13]

In contrast to the stifling economic controls enacted under Economic Democracy, it can be strongly argued that the free market is the ultimate economic democracy. Upton Sinclair was simply wrong. Henry Ford's automobile company was not an autocracy that controlled the car market, but rather was simply a cog in the wheel of economic freedom.

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While Ford may have been an autocrat within his company (he also paid the highest wages in American industry), he could not give orders to the consumers. For a while Ford ruled the automobile roost with his black, inexpensive Model Ts and Model As, but when General Motors began to offer various-colored cars that were given yearly design changes—and could be bought on credit—in contrast to the uniform Fords that could be purchased only with cash, car buyers voted with their money to give GM the lion's share of the market. The process was totally democratic; the results may not have been to Henry Ford's liking, but for all the power Sinclair believed Ford allegedly owned, he could not force consumers to change their minds. Ford had no choice—if he wished to stay in business—but to give prospective car buyers a greater selection from which to choose.

In a free market consumers decide, by choosing from the array of goods and services made available to them, which businesses are to become successful and which are not. This democratic aspect of the market has been clearly driven home by William H. Peterson in his booklet "Who Is the Real Employer?/The True Source of Jobs":

> By your decision to purchase or not, you, in concert with your fellow consumers across the land and, in fact, across the globe, decide what is to be produced and who will produce it. In effect, you decide who will be employed, how much they will be paid, who is to be promoted, who demoted.[14]

Contrary to popular belief, producers do not control the free marketplace. Consumers do; and all of us who live and breathe and eat are consumers. Notes Peterson:

> Businessmen, you see, are agents of you, the consumer. They must do your bidding—or else. They must produce the quality you demand—or else. They must turn out goods and services at the price you are willing to pay—or else.[15]

For example, throughout most of my teenage and adult life I have heard time and again that the American automobile manufacturers are monopolies that have strangled the U.S. economy for most of this century. Indeed, for most of my life domestic car producers have dominated the U.S. market. This phenomenon was not due to coercion on the part of the producers but rather the exercise of free choice on the part of consumers. Now, with the success of Japanese, German and Swedish auto producers evident in our nation today, it seems preposterous at best to suggest that domestic manufacturers have a "stranglehold" anywhere in this country. To paraphrase an oft-repeated statement from a former General Motors executive, what is good for the American consumer may not always

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be good for GM (to its credit, however, GM has still advocated free trade in the automobile industry in contrast to the positions taken by the other two major U.S. producers and the United Auto Workers).

The Market Is Democratic

If the essence of democracy is free choice, then the free market is truly democracy in action. Indeed, as Novak has aptly pointed out, capitalism is most qualified to be exercised in a politically-democratic society because of its own democratic nature. The free market, he notes, protects individuals' "economic liberties as democracy protects their political liberties."[16]

Socialism, as Novak demonstrates, "fuses the economic system and the political system into one." And in so doing socialism limits the choices of the individual, an action that is not democratic but rather authoritarian. To politicize the delicate, intricate actions of the marketplace in reality subverts the democratic process. Choice is taken from consumers—and ultimately workers—and placed in the hands of government agents.

An excellent case in point is the Lada, the Soviet Union's version of the automobile. The Lada, which is available to Soviet citizens at a few years' wages, has been carefully drawn up by economic planners who supposedly have the "people" in mind. The car, however, has a few flaws. First, and foremost, it is incredibly expensive. Secondly, it is quite noisy. It also breaks down quite easily and buyers are given a hand crank upon purchase because the electric starter inevitably stops working. No doubt Russian consumers would rather place their rubles on a Toyota or a Chevy, but such is not their liberty.

Barriers to Growth

One might argue that because Economic Democracy is laid into place by the permission of voters, the market breakdowns that plague dictatorial socialist nations like the Soviet Union could not happen under Economic Democracy. Yet, since Economic Democracy places producers ahead of consumers in preference, innovation and change that are so necessary to economic growth are less likely to happen. Protection of existing producers and their unions demands the keeping of the status quo. Economic Democracy promises a *static* society, one in which the economic pie does not expand, but rather is divided into politically-popular sections.

There is an ironic note of gloom in the discussion of Economic Democracy that undermines the promise of democracy itself. Writes Novak:

> Governments can govern today only insofar as they meet the exigent material needs of their peoples. Given the

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new historical possibilities, the economic policies of governments will be rejected if their peoples cannot glimpse the real probability of a future better than the past. Governments depend upon the productivity of their economic system. More than philosophers and theologians have recognized in the past, the promise of democracy depends upon high levels of economic productivity.[17]

When government intervenes in the marketplace—whether or not it acts in the name of democracy—it does so at the expense of the essence of democracy, that is, free choice. That it intervenes in the name of freedom is deceptive; that the public accepts such intrusion as part of the democratic process is nothing short of tragic.

Yet, in truth, political democracy needs real economic democracy in order to survive. And authentic economic democracy is nothing less than the free market.

—FOOTNOTES—

[1]Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics,* Vol. 43 (July, 1981), 369–370.

[2]For a look at misused terms or "hooks" in medicine, read Jane M. Orient, "Collectivism in Medicine: An Exception or a Hook?" in the June, 1982, *Freeman.*

[3]For an in-depth investigative view of the Campaign for Economic Democracy, an organization headed by Tom Hayden and Jane Fonda, read Justin Raimondo "Inside the CED" in the February, 1982, edition of *Reason.*

[4]"An Atari-Age Agenda," *Newsweek* (June 28, 1982), 46.

[5]Upton Sinclair, "How I Reformed Three Great American Families," *The Thirties,* ed. Morton J. Frisch and Martin Diamond (DeKalb, Illinois, 1968), pp. 150–151.

[6]While the essence of democracy is one man, one vote, the present-day promoters of democracy have emphasized solely the collective aspects of it, such as "public good," "public interest," etc.

[7]Lawrence W. Reed, "Seven Fallacies of Economics," *Freeman* (April, 1981), 213–214.

[8]Justin Raimondo, "Inside the CED," *Reason* (February, 1982), 24.

[9]Raimondo, p. 21.

[10]Raimondo, p. 21.

[11]In an ironic twist, Ronald J. Sider, author of the popular *Rich Christians in an Age of Hunger,* suggests in his book that the creating of labor-intensive industries instead of capital-intensive ones will actually *create* more jobs in the service sector, a view also promoted by the late E. F. Schumacher in his *Small is Beautiful.* The reason for their beliefs, in my opinion, is that both men saw work-saving capital as a device that put people out of work, thereby causing unemployment and poverty. Neither recognized that capital creates wealth, and the more wealth that is created, the more employment possibilities exist.

[12]We continue to marvel at the French who manage to lower their real standard of living by creating such technological wonders as the Concorde SST and the bullet trains. French taxpayers ultimately foot the bill for such devices.

[13]One may argue that price controls have the consumer in mind, but, for the most part, price control legislation is written so that producers charge on a cost-plus basis, thereby allowing for profit margins. The price-control legislation also, for the most part, restricts entry into the marketplace by new producers.

[14]William H. Peterson, *Who Is the Real Employer?* (Washington, D.C., 1976), p. 10.

[15]*Ibid.*

[16]Novak, pp. 377–378.

[17]Novak, p. 368.

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Steve H. Hanke

The State Wades In

MANAGEMENT of water resources by the government can often encumber their wise development and use. To illustrate this problem, I offer a case study about the life and death of a private water company.

A small private water company was created in 1936. Its purpose was to supply, through a central system, potable water for 300 connections in a stable, rural community.

To protect the public interest, the state regulated the company through its Public Service Commission. The rates charged by the company required the Commission's approval. As a result of the Commission's decisions, the company's water rates were less than the real cost of supplying water.

These artificially low prices resulted in two problems. First, customers were not given the proper incentives to conserve, so their water use increased. This growth taxed the system's capacity, particularly during the hot dry summer months. Lacking the Commission's approval to raise prices or to expand capacity, the company was forced to institute water-use restrictions periodically. These were viewed by the Commission, local politicians, and customers as symptoms of inadequate water service and poor management.

Deterioration of the system—the second problem—began to appear in the 1970s, when components of the original system began to leak. In 1977, the company recognized that capital improvements costing $500,000 were necessary to assure adequate service, and it planned to make these improvements in three stages.

The company's revenues for 1977,

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however, were only $30,000. These were not adequate to cover its operating costs. Since the company could not generate investment funds either by self-finance or by a new bond issue, it applied for a rate increase. This additional revenue would have allowed it to attract financing for capital improvements. The Commission, however, denied the rate request, even though the rates had not been changed since 1968.

After denying the request, the Commission held hearings to determine the adequacy of the existing system and the need for improvements. During these hearings, a government agency alleged that it could obtain a federal grant and that it could use the grant to purchase the company's assets, to make improvements, and to provide water at an annual cost of only $15,000.

The Commission concluded that, even if the water company could finance its improvements, the resulting rates would be burdensome, and that the consumers would be better serviced if the government agency assumed the responsibility for water supply. So the Commission revoked the water company's right to exercise its franchise. It also ordered the agency to assume operation of the system and to apply for the federal grant.

After several months, the agency discovered that it could not meet even its out-of-pocket operating expenses with the existing rates, which generated $30,000 per year. It, therefore, raised rates to $60,000 per year—the level that the Commission had earlier denied to the private water company. The agency could do this because its rates were not regulated by the Commission. Shortly after assuming responsibility for the new system, the agency discovered that money from federal grants could not be used to purchase existing systems. This money could be used only to make new capital investments. The agency correctly concluded that its least costly option was to use a federal grant, which covered 75 percent of any new capital works, to construct an entirely new, duplicate system. A new system was built for $1.2 million. It was financed by $900,000 from a federal grant and $300,000 from the agency.

The mismanagement by the government of a local water problem had produced three unanticipated—and unfortunate—results. A private enterprise was asphyxiated, customers received the same service at a higher price, and resources were wasted, since a government agency spent $1.2 million for a service that could have been provided privately for only $500,000.

Moral: If you allow the government to manage a water problem, you may at first find the solution attractive. In the end, however, you will pay and pay.

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Jack D. Douglas

A REBIRTH OF ECONOMIC FREEDOM:

The De-Bureaucratization of American Business

WE AMERICANS have always cherished our economic freedom as a vital pillar in the foundation of our "natural system of liberty." As in Britain before us, we have always cherished the spirit of the independent yeoman or freeholder as the embodiment of this value. As the typical American would put it today, "I don't like taking orders from anyone. I want to be my own boss."

The independent farmer ("freeholder") was both the ideal and the overwhelming economic reality in American life until late in the nineteenth century. (After the invention of the cotton gin in 1793 much of the land of the South became large plantations worked by slaves. But Southerners were far outnumbered by Northern freeholders.) These independent farmers were the backbone of the Jeffersonian-Jacksonian "empire of liberty." Being dependent on no one for their livelihood, as Jefferson argued, they could be counted on to assert their real interests and, thus, to maintain the republican freedoms enshrined in the Bill of Rights.

Jefferson and his successors feared that this republic could not long endure if the freeholder vanished and workers became dependent on others. The corporate concentrations of capital and employment that developed over the century, fueled largely by changes in government laws, especially the introduction of high tar-

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iffs after the 1830s, limited liability for corporations and huge land grants to the railroads, and partly by new capital-intensive technologies demanding many workers (as in steel), was a severe challenge to this entire "natural system of liberty."

It looked to an increasing number of Americans as if the economic freedom of a few Big Businessmen was destroying the economic freedom of the many, turning them from independent freeholders into dependent wage earners, thus threatening liberty in general. While few Americans heeded the prophecies of people like Marx, who believed monopoly and its exploitation of workers would be the inevitable outcome of capitalism, ever more of them turned against business because of this Bigness. They turned to government and unions to protect them by controlling Big Business.

Antibusiness Sentiment

By the early part of this century social thinkers, especially those influenced by the "institutional economists" of Germany, began to see business in general in the form of Big Corporate Bureaucratic Business. Progressives, including such diverse thinkers as the young Walter Lippmann and Herbert Hoover, called for more and more restraint on business and more and more planning by government. In the 1930s the great upsurge in antibusiness sentiment triggered by the Great Depression combined with the argument of some economists that Big Business was now thoroughly bureaucratized and divorced from ownership to convince ever more people that government bureaucracies could just as well own and manage them efficiently.

Joseph Schumpeter, originally a member of the extremely free-market oriented Austrian School of Economics (of which Ludwig von Mises and Friedrich Hayek are the best known members), argued in his famous book on *Capitalism, Socialism and Democracy* that Big Business was successful because it minimized risks (especially those from recessions) and its success through bureaucratization was preparing the way for government bureaucracies to take them over. Big Business, then, had prepared the way for Socialism.

This kind of argument was most successful in the 1930s in Britain, Sweden, Fascist Italy, and Nazi Germany. In Britain the government started intentionally encouraging the so-called "Rationalization" of business, that is, concentration into Big Bureaucracies. In the 1940s government then started nationalizing Big Business, completing the Schumpeter scenario.

By the 1960s, and continuing up to today, our college students, in-

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cluding many of our graduate students of business administration being groomed for Big Business, were looking at business through the socialist-tinted spectacles of John Kenneth Galbraith, who proclaimed in *The New Industrial State* that Big Bureaucratic Planning was inevitable. "By all but the pathologically romantic, it is now recognized that this is not the age of the small man." Given his personal preconceptions and wishes, and living in the first great period of corporate conglomeration of the 1960s, Galbraith failed completely to see that the Age of Big Business was already dying.

Revolution of Littleness

The "Revolution of Littleness" had already begun in business around the world, but especially in the United States. This Revolution was first clearly sighted and proclaimed in 1976 by Norman Macrae in *The Economist*. But its realities are still largely unnoticed. The early realities of even the most sweeping revolutions are normally unseen. Even the scientific and Industrial Revolutions were a hundred years old or more before many people began to realize that something of profound significance was happening. Our traditional preconceptions and our situationally limited views of the broader developments in society conspire to hide the newness and scope of such changes until they are so advanced that they become suddenly obvious.

Our Revolution of Littleness has gone unnoticed by most people both for these usual reasons and because our headlines and network stories paint the opposite picture. Most experts and politicians providing these stories are too versed in and rewarded for the traditional ideas about the Age of Big Business to see how rapidly the tide is now running against Bigness. So are many of our Big Businessmen, but they learn very quickly when the tide starts sweeping them away.

Mega-Mergers versus Little Realities

The great increase in mergers in the last few years has been the most misleading appearance. Businesses last year put up approximately $80 billion for mergers. Many of these were very Big Mergers indeed in which very Big Businesses bought up much smaller ones. U.S. Steel's $6 billion take-over of Marathon Oil was the Big Headline of business news for weeks. On the surface this certainly shows Big Steel getting much bigger. But look beneath the surface. This move itself shows that, just as the United Steelworkers have claimed angrily, U.S. Steel is trying *desperately* to diversify away from the steel industry.

The really big story in the steel industry, as Jeff Blyskal shows in

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Forbes (January 4, 1982), is diversification away from steel *and* the rapid rise in profitability and growth of the smaller steel companies. The most efficient and rapidly growing steel producers in the U.S. (and in some other countries, like Italy) are generally small and slim-and-trim, with low debt-to-equity ratios and small, highly skilled, highly productive and non-unionized work forces. Over the last five years U.S. Steel has ranked 18th in growth and 21st in return on equity in the American steel industry. Once-huge Kaiser is quitting steel entirely. Some governments, notably Mexico, are pouring billions into huge, centralized steel mills. But these mills will almost certainly be uncompetitive White Elephants kept alive, if at all, by vast subsidies.

This might still mean that, even if steel is getting littler—decentralizing, U.S. Steel will get bigger. But that is not even the plan. U.S. Steel hopes Marathon, with its vast oil reserves, will provide 51% of its corporate sales and 83% of profits. Marathon, they hope, will make up for their overall shrinkage in steel sales. Those of us who believe the market forces unleashed by the deregulation of oil and natural gas will destroy OPEC's monopolistic pricing suspect this merger will prove as disastrous as most mergers do.

Of course, we must be careful about generalizing from steel to our whole economy. Those still mesmerized by Bigness might insist that steel, tires, and autos are "dying" because of foreign competition, so they are symptoms of the "de-industrialization" of America. Actually, there is no "de-industrialization" going on, not even in the steel industry. There is only change, above all a shift to smaller, more specialized producers and to mills processing the vast quantities of scrap steel. Even basic steel production may eventually resume growth.

Prospects for Growth

Once inflation is wrung out of the economy and interest rates come down, the new tax incentives (decreased marginal rates, more rapid depreciation, and investment credit) will probably lead to investment in new production technologies. But this investment will very likely be in the smaller and newer firms, using much automation and small, nonunionized—thus flexible and productive—work forces. (Even without the new incentives, industries like textiles and watches went through this process in the 1960s and 1970s.)

But the skeptics have a serious point. So let's look at the other extreme, that of the very new, high technology world of computers. Here there is indeed a giant to fixate the glare of the believers in Bigness. IBM remains huge and formidably creative, efficient and profitable. It is

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probably the best example one could find in the world today to support—by appearances—the nineteenth-century argument that the economies of scale (of Bigness) give the Big an inherent advantage over the little and doom a free economy to ever greater concentration.

But even IBM is partially a mirage of Bigness power. Though it ranks third in return on equity, probably because of its great backlog of successes, it ranks only ninth in growth over the last five years in the U.S. computer industry. Even in huge and very fast computers, where Bigness gives its greatest advantages because of the vast capitalization and many specialties demanded, companies like Amdahl (7th in growth) have been very successful competitors. A.T. & T., trying desperately to shed organizational fat through divestiture, may soon become a formidable competitor. And so far IBM has been badly bested in the most rapidly growing new realms of computers, such as personal computers, by total upstarts like Apple. Apple was created by two whiz-kids with a bright idea and no bureaucratic planning and budget-allocation committees.

The Big Picture of the Little Trend Is Clear

Because of the long-standing obsession with Bigness, conglomeration and the take-overs of little companies by Big ones get the headlines and airwaves. But deconglomeration and divestiture (selling off parts of a company) go unnoticed by almost everyone except investment bankers. Who noticed when Bendix sold its forest products subsidiary for $425 million? Or its holdings in Asarco for $340 million? Or Skagit? Or United Geophysical Corporation? Almost certainly not Teddy Kennedy or John Chancellor.

Partly because of this lack of concern, and even more because most decentralization (re-littling) of business is not reported outside of the companies, we don't know exactly how much is going on. But we do know a great deal about the trends.

Very importantly, the recent "mega-acquisitions" are not the result of any economies of scale that doom us to more Bigness. As economists like Dan Orr of Virginia Polytechnic Institute have long argued, the conglomeration and general growth of Big Corporations has been due very largely to our tax laws, unions and massive regulations in some segments of the economy (railroad, trucking, air lines) which have severely penalized new and small firms. One of these many incentives, the double-taxation of corporate dividends (first as corporate income and then as individual income), has been very important as an incentive for individuals to let corporations reinvest profits *within* the company, even

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when higher rates of return could be gotten elsewhere (say in money funds). This way only corporate taxes are paid until much later (perhaps after retirement). When the individual does receive the dividends or sells the stock he pays the lower tax on capital gains. Even some of the Reagan economic renewal tax changes compound this government incentive to Bigness. Worst of all, the leaseback provision subsidizes the dying dinosaurs.

High Inflation Encourages Merger Activity

The recent surge in mergers is predominantly a result of high inflation and other investment uncertainties that make it less risky (or make it seem less risky to those who believe inflation, OPEC, and so forth, will continue) to buy already established businesses (or proven reserves) than start new ones or expand old ones. Royal Little, who as Chairman in the 1950s made Textron the first of the famous modern conglomerates, and is now part owner of a venture capital firm helping companies to deconglomerate, has noted, "This [upsurge in mergers] is one of the results of double-digit inflation, which makes it so costly today to go out and buy something new."

But note that, *in spite of* these government generated incentives to Bigness, even today outright deconglomeration and divestiture are probably not too far behind the mergers in money terms. The fact is, as Peter Drucker has argued, most mergers do not make good economic sense and are far more the result of vanity than profit motives. Even with the government generated incentives, most mergers fail and are followed by outright divestitures, by partial spin-offs, by radical restructuring which decentralizes decision making, or by bankruptcy.

In an unusual study of the outcomes of mergers, Arthur Lewis (*Fortune,* May 3, 1982) found that the ten largest mergers among *Fortune* 500's largest corporations in 1971 were overwhelmingly failures over ten years: "Most of the acquisitions produced appallingly low returns during 1981. In three cases . . . the estimated return on investment was less than 5%. In three more cases . . . the return was between 5% and 10% . . . and none of them matched the 13.8% median return for all the companies in this year's *Fortune* 500. If we go beyond the statistics and consider the paths of some of these corporate marriages, the case for conglomeration looks even bleaker . . . [Our study] strongly supports the notion that investing in unfamiliar businesses is unduly perilous—just as the critics maintain. Most of the acquirers evidently were lured into buying unstable companies, or into committing foolish mistakes that harmed stable ones. Only two merg-

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ers remained trouble-free from beginning to end of the decade."

The trend to littleness is equally clear even in companies that are growing in the shares of their markets. The old stereotypic view of Big Business as a monolith run by rigidly centralized, top-down command the way an army is thought to be run (but actually is only by the losers) has never been true for many. The dominant form has been the General Motors model of decentralization of most decisions, with centralization only of those (such as auditing and financing) required to keep control. Contrary to some of the popular soul searching going on in the aftermath of the Japanese challenge, a high degree of decentralization and its concomitant of individual decision making has probably always been the dominant form of management in American business, but the degree has varied vastly from one segment to another and over time.

The Revolution Triumphant

This variation in decentralized decision making has probably been due mostly to differences in technology and markets. In general, the more complex and changing a technology, and the more competitive and changing a market, the more the incentives are for littleness, and, thus, the more decentralized the decision making.

American industries, faced with little European or Japanese competition, dominated their markets until the 1960s or, in some cases (like autos), the 1970s. In addition, in some industries, notably steel and autos, technology changed little. When the technology did change in steel manufacturing, dominance in the domestic market was partially maintained by the union wage at the big firms and then by protectionism—both the result of government. These conditions combined with the government generated inducements to bigness to produce growing Bigness in some segments, especially in autos and steel.

But even in that period competition was so great and technological development so rapid that *in general* there was no increase in concentration in our overall industry (regardless of the conglomeration headlines and the pronouncements of anti-business ideologues). At the same time autos and some other segments got more concentrated, the more technical and competitive segments, like electronics and cameras, fragmented—littleness was rampant. And within companies like IBM and Polaroid the growing proportion of technical specialists were increasingly free to create their own jobs and work in small teams—and were thus more efficient at creating new products and keeping down costs.

Today, even with those govern-

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ment generated incentives, all really Big corporations are severely threatened by the more slim-and-trim ones, especially the new ones. Even General Motors, which a few years ago seemed a secure Goliath, is severely threatened by the much smaller, highly decentralized and automated automakers of Japan—approximately ten of them, not one. Without the government's "orderly trade agreements" with Japan, who would bet on this Goliath surviving David's onslaught?

Meeting the Challenge

The Big Businesses that are meeting the challenge are doing so by systematic decentralization, partial spin-offs, and sub-contracting to small teams both within and outside the company. One of the most efficient and rapidly growing companies, 3M, continually decentralizes even its manufacturing plants (to keep employees down to a few hundred at each plant) and increases its incentives for individual initiative and creativity. Gordon Engdahl, 3M's vice president for human resources, summed up their view for *The Wall Street Journal* (Feb. 5, 1982): "We are keenly aware of the disadvantages of large size. We make a conscious effort to keep our units as small as possible because we think it helps keep them flexible and vital. When one gets too large we break it apart. We like to say that our success in recent years is due to multiplication by division."

In his study of Digital Equipment (*Fortune,* May 3, 1982), Geoffrey Colvin noted the general principle of diminishing returns—and eventual death—from growing size: "In business, as in nature, there seems to be a law that things slow down as they grow toward the elephantine." How has Digital maintained its dazzling growth rate this long? First, note that it's still only 137th on the list of 500, is still reasonably young and a pioneer in the most rapidly growing major segment of the world economy. Beyond those factors, the systematic pursuit of littleness—decentralized decision making—is crucial. They've never acquired *any* company. The corporation is broken down into 18 largely autonomous units. Says security analyst Stephen Dube with Dean Witter Reynolds, "It's not one big business—it's 18 small ones." The heart of any high technology firm is its engineers. Digital keeps them efficient and creative by decentralizing its 5000 into quality teams of about 30, by avoiding almost all bureaucratic rules and forms, and by keeping them in direct contact with the equipment in use and with customers.

Sub-contracting to outsiders is not only the now-famous "secret" of much of the success of Japanese auto makers, but is also growing rapidly in businesses around the world. Much

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of the programming for computers, especially the new personal ones, is being created by Lone Ranger entrepreneurs in their home studies, and then marketed by the computer firms or retail outlets. Even once arrogant IBM has moved more to use these outsiders and make its products compatible with those of other firms. Today almost all office work could be done at home—or anywhere in the world where a computer console can be plugged into the Worldwide Electronic Net—and thus sub-contracted out to the most efficient.

The Electronic Revolution

The Electronic Revolution is now rapidly transforming business in all economically advanced societies, and most rapidly in the United States. Computers wed to robots are rapidly making it possible for mini-factories to efficiently manufacture products with far greater flexibility than has been possible, thus allowing a far greater variety in the end products. It is also more efficient now for companies that once needed to be centralized because of their specialized products to decentralize. The Electronic Revolution makes decentralization even more efficient and this will quickly eliminate our ancient bureaucratic dinosaurs. This is one major reason why companies have been moving from more expensive cities like New York to less expensive smaller ones, especially in the South and West, and even to non-urban areas.

For years Harcourt, Brace, Jovanovich, a major publisher, has been decentralizing its corporate headquarters from New York City to San Diego, Orlando, Paris, Canada and elsewhere. By 1982 only 2,000 of its 8,300 employees were still in New York. In February of that year William Jovanovich, the chairman and chief executive officer, announced that almost all the remaining 2,000 would leave the City, thus saving an estimated $20 million a year just by moving all publishing functions to San Diego: "The notion that we have to be in New York City to conduct business is a shibboleth. With the modern electronic techniques of instant communication by video terminals, satellite communications and conference calls, it is no longer necessary to be in one place and not another."

These sub-contractors of bigger businesses are predominantly service workers, by far the most rapidly growing segment of our economy. The Secretariat of the General Agreement on Tariffs and Trade found that "Between 1970 and 1980 there was a net increase of 19 million jobs in the U.S. (24%)." Roughly 87% of these were service jobs and the great majority of these were in small firms—some of one person. One study of data on 5.6 million firms by an MIT group found that, between 1969

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and 1976, 66% of new jobs in the U.S. were in firms with fewer than 20 employees.

New Jobs with Small Firms

Since the underground economy has been growing extremely rapidly, and since almost all of these consist of one or only a few individuals, far more than two-thirds of all new jobs are in very small firms. By contrast, the U.S. Census Bureau's "County Business Patterns" surveys show that the proportion of Americans working for companies with over 500 employees was 27.6% in 1967 and shrank to 22.4% in 1979—a decrease of one-fifth in a mere 12 years. In the 1970s the number of employees at U.S. Steel shrank by one-fourth, from 531,000 to 399,000.

The same thing is happening in the other industrialized nations. In Japan one Japanese worker out of six has his own business and some of these are one-man robot-run factories. Even in the big companies the emphasis is strongly against top-down, bureaucratic decision making and very much on individual and team decision making. As Harvard's Ezra Vogel notes, "The essential building block of a Japanese company is not a man with a particular role assignment and his secretary and assistants, as might be the case in an American company. The essential building block of the organization is the section. A section might have perhaps eight or ten people. Within the section there is not as sharp a division of labor as in an American company. To some extent, each person in the same section shares the same overall responsibility."

Vogel errs only in failing to realize that the most creative, efficient, profitable and growing American companies in high technology and with highly competitive markets have been doing this for decades. Thomas Edison, who created the first modern research lab early in this century, ran it entirely on the principles of team spirit and individual initiative. He is continually quoted for his apocalyptic, anti-bureaucratic pronouncements: "Organization! Hell! I'm the organization! . . . Hell! There ain't no rules around here! We are tryin' to accomplish somep'n'." They did and later high technology firms like IBM followed in their path. The Japanese borrowed these ideas and sometimes improved on them. Big Bureaucratized Business in America was always partly a figment of the imaginations of socialistic critics and the rest was overwhelmingly due to government mandates on union powers, taxes, regulation and even direct procurement policies by the Defense Department.

In a recent update on his earlier prophecy (*The Economist,* April 17, 1982), Norman Macrae finds that the

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Revolution is rapidly gaining momentum. In addition to the accelerating rate of decline of the Big and creation of the little, he finds the remaining Big are seeing the handwriting on the wall and are rapidly introducing "intrapreneurial practices": that is, more and more firms are breaking themselves up into largely autonomous teams that compete with each other in bidding for company projects.

The New Message

The general point is to internalize losses and profits into the smallest idea-creation and product-manufacturing team possible—*bring the market incentives to each individual as directly and immediately as possible,* while at the same time optimizing all the powerful motivating forces of team work ("fellow feeling"). As Macrae is well aware, this idea has long been used by very successful American companies like Arthur D. Little. But what is new is the rapid spread of the practices and—even shocking—the spread of the message. There are now consultants in Sweden and the U.S. (such as Mr. Bob Schwartz's Tarrytown School for Entrepreneurs outside New York) and even professors (such as Reg Revans at Manchester College of Science and Technology) who are propagating the message. And even Prophet Macrae is being honored in his own day, having been invited to give talks on the Revolution of littleness in twenty nations.

As technology and competition increase, what is now an early but powerful trend will become a tidal rush. If the government ever stops mandating inflation and punishing small business, the Revolution of Littleness will sweep all before it. And the Age of Little Business will be an age of greater economic freedom, thus of ever greater creativity, efficiency and growth for all of us.

IDEAS ON LIBERTY

Regulatory Taxation

TAXES on profits interfere with these important signals. They weaken the signal of encouragement to a profitable business and confiscate the means needed for expansion. Thus, taxes frustrate the adjustment the market demands, destroying the dynamism of competitive enterprise, protecting inefficient operators at the expense of more capable competitors. The capitalist economy thus loses its characteristics of quick adaptability, managerial efficiency, and keen competition. The fundamental pillars of the free market are dangerously weakened by the present taxes on business profits.

HANS F. SENNHOLZ

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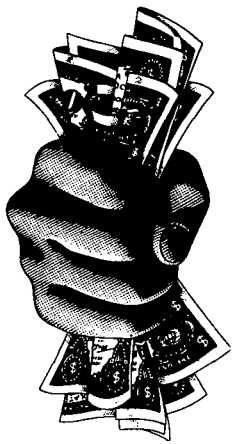
James Doti



CAPITALISM AND GREED

BEFORE ECONOMICS became a science of economic models, theoretical proofs and irrational rationality it was called moral philosophy and dealt with how individuals live their lives. A comprehensive philosophy of life was presented during the latter part of the eighteenth century by Adam Smith. In his path breaking work, *The Wealth of Nations,* Adam Smith described an economic system based on self-interest. This system which later became known as capitalism is described in this famous passage:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (Smith, p. 14, Modern Library edition, 1937).

Thus, the forces of self-interest determine individual actions. It is difficult to reconcile this practical religion of capitalistic societies, however, with any system of thought or morality that can be described as Christian. Surely, an underlying theme in Christ's teachings is that love and charity toward one's neighbors rather than self-interest should guide an individual's actions:

But I say this to you who are listening: Love your enemies, do good to those who hate you, bless those who curse you, pray for those who treat you badly. To the man who slaps you on the cheek, present the other cheek too; to the man who takes your cloak from you, do not refuse your

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tunic. Give to everyone who asks you, and do not ask for your property back from the man who robs you. Treat others as you would like them to treat you. And if you lend to those from whom you hope to receive, what thanks can you expect? Even sinners lend to sinners to get back the same amount. Instead, love your enemies and do good, and lend without any hope of return. (Luke VI: 34–38, *Revised Version of La Bible de Jerusalem).*

Christ also taught us to ". . . be on your guard against avarice of any kind, for a man's life is not made secure by what he owns, even when he has more than he needs." (Luke XII: 15–18)

Christ's message certainly seems to conflict with Adam Smith's belief that striving for personal gain is a natural human trait that should be given almost free rein in society. But though the underlying moral basis of Christianity and capitalism may contrast sharply, it can be argued that the outcome of an economic system based on capitalism has socially redeeming characteristics.

The Challenge

To understand this argument, let us set the following goal: To better society and benefit our fellow human beings. Attaining this goal by living a Christian life seems straightforward. But how can one achieve such a goal in a capitalistic society where self-interest is the ruling economic dogma?

Adam Smith answers this question in the most famous passage from *The Wealth of Nations*:

> . . . every individual necessarily labors to render the annual revenue of the society, as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it . . . he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (Smith, p. 423)

This principle was vividly demonstrated to me when I was an undergraduate student in Chicago during the "Great Snowstorm" of 1967—a storm not to be confused with the "Great Chicago Snowstorms" of 1968, 69, 70 . . . 81.

At the time, I was living in what generously could be described as a hovel. It would not be wide of the mark to conjure up images of the bleaker passages in a Dickens novel to have a reasonably correct impression of the place. My routine in life consisted of going to school or work and studying endlessly, or so it seemed. One of the simple joys in life that helped to break the monotony was my noon day trip to the local deli where the greatest Italian beef sandwiches in the world were made.

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During one weekend in January, as I crammed for final exams, I anxiously awaited my noon day repast. At 12:00 noon sharp, as I opened the door for what would be a short stroll to "Salvatore's Deli," a solid wall of snow blocked my path. Now for anyone who has lived in Chicago for, at least, a couple of years, this kind of experience is not uncommon. What made this situation unique, however, was my discovery so late in the day of the snowstorm's occurrence. Since my windows were boarded up to prevent cold from entering (a sort of makeshift storm window), I had no idea a massive storm hit the city the previous night.

Quickly sizing up the situation, I quietly chortled as it dawned on me that final exams would be cancelled, and I would have another week before I again would have to start cramming. Upon further reflection, my initial elation was dampened as I looked at my inventory of foodstuffs and realized that restocking would be my first order of business. Worse yet, "Salvatore's Deli" would undoubtedly be closed since Sal would never be able to make it in from the suburb where he lived. My only recourse would be to shovel myself out and go to the nearest "Mom and Pop" grocery store.

After a good deal of shoveling and trekking through the snow, I finally reached the store. But what I found looked like "The Twilight Zone." Shelves were emptied and all that remained were several tins of anchovies and cans of artichoke hearts. Panic was beginning to set in and a cold sweat that defied the elements broke out over my face. There was only one other grocery store in the area, but I held out little hope that the scene would be much different. You can well imagine my surprise, therefore, when I entered the store to find an adequate, albeit depleted, supply of groceries on the shelves.

It was like a scene from a Keystone Cops movie as I sped around the aisles stocking up on Cokes, Twinkies, Snickers and other necessities of life. But, again, my brief moment of joy was dashed as I entered the checkout line and saw a sign that read: "Prices for all groceries are temporarily doubled." My joy gave way to outrage as I stormed out the door empty-handed.

Several feet from the door, however, as I gazed upon miles of snow and drew several breathfuls of icy air, principles and ideals gave way to reason and survival. It should not be surprising, therefore, when I tell you that I returned to selectively purchase my needed provisions. The only "idealism" that remained within me was my ability to muster up some grumbling as I trekked back home through the snow.

A footnote to this story is that the store stayed open and was somehow able to sell groceries during the en-

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tire week that normal deliveries were cut off. It was only later that I found out that the grocery store owner had paid children to take their sleds to the closest vegetable and meat warehouse to stock up on whatever the children could buy and fit on their sleds.

Capitalism in Action

The Wealth of Nations is replete with examples like my snowstorm experience. But, perhaps because of the eighteenth-century setting, Adam Smith's examples never affected me as much as my first-hand experience with the workings of a capitalistic system. What greater support could I have for the theory that private vice leads to public virtue? Here we have one store owner who in the interest of fair play does not change his prices but quickly sells all his merchandise and closes shop for the rest of the week. I am sure he experienced a great feeling of self-satisfaction because he had done the decent and proper thing by not exploiting his customers during a time of urgent need.

In sharp contrast to this example of high-minded idealism, we have the case of a capitalist who would seize upon any opportunity to maximize profits. Yet, in doing so, he forced people to limit their purchases to what they really needed. In addition, the higher prices allowed the greedy grocery owner to pay children to put their sleds to a new use, thereby increasing the supply of food available for sale. As Adam Smith stated in the quote noted earlier, "By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it."

It could, of course, be argued that high prices, while admittedly containing some inherent benefits, discriminate against the poor. In addressing this argument, I can assure you that no one in the neighborhood was poorer than I. Yet I benefited greatly from the forces of self-interest. I should also note that high prices give way to low prices as capitalists scramble to supply more of the high-priced goods to increase their profits.

What we see here is capitalism in action, and at first glance, it is not a pretty sight. Capitalists motivated by greed seek their own gain by maximizing profits. The forces of the market place, however, convert this private vice into public virtue. Thus, living a life based on greed, which appears to be the antithesis of Christian morality, can do quite well in accomplishing the goal set forth above—that is, to better society and benefit our fellow human beings. In fact, Adam Smith's contribution in the history of intellectual thought was not inventing capitalism but providing theoretical insight into how self-interested individuals ulti-

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mately benefit society more than they benefit themselves.

I would now like to carry the argument one step further. Not only do I believe that self-interest benefits society, but I also contend that it is the only efficient way goods can be produced and distributed in a modern economic system.

To see this, think of all the goods purchased in our society. Think of all the goods we consume on a daily basis. Do we know who produced these goods? Do we even know how or where they were produced? Probably not. A modern society requires specialization of labor with millions of individuals contributing to the production of goods and services. This contribution on the part of laborers does not come about as a result of an altruistic desire to serve society but from a basic desire to serve oneself.

At times, of course, altruism can serve as the prime motivating force for individuals. This force is strongest in relationships between family members or friends, but it can also exist for others. An example of this is someone who contributes to "Food for the Hungry." Indeed, contributing to help relieve world hunger is a charitable act that embodies the love, compassion and respect that a person can feel for humanity. Yet, such a charitable act is essentially a voluntary redistribution of income. It does not, however, represent the actual production of the charitable good. Ultimately, any relief of world hunger comes about as a result of countless farmers, food processors, distributors, shippers and other disinterested individuals producing the food that charitable individuals may purchase for the hungry.

Adam Smith said all of this in a more lucid and eloquent way in my favorite quote from *The Wealth of Nations:* "In civilized society he [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons." (Smith, p. 14).

It is unfortunate indeed, that "greed" has acquired such a bad connotation. Without it, we would not have clock radios, disposable diapers, or even water in Southern California. Alas, that means some of us would be in Chicago suffering through a few more "Great Snowstorms"!

IDEAS ON LIBERTY

Ludwig von Mises

THE accumulation of new capital through saving initiates the chain of actions that results in an improvement of economic conditions. Saving is the first step on the way toward improvement of material well-being and toward every further progress on this way.

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John Jefferson Davis

FIRST-WORLD WEALTH AND THIRD-WORLD POVERTY

"In one world, as in one state, when I am rich because you are poor, and I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of rights; it is not an appropriate matter for charity." Such are the angry claims of Julius Nyerere, president of the African nation of Tanzania.[1] His sentiments are echoed by the Third-World revolutionary Frantz Fanon: "The question which is looming on the horizon is the need for a redistribution of wealth. Humanity must reply to this question, or be shaken to pieces by it."[2]

Are the charges of Nyerere and Fanon supported by the facts? Do we as members of the more affluent nations have a moral obligation to give "reparations" to the poor of the Third and Fourth-World nations? Does our wealth cause their poverty?

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The World Outlook

It is useful to recall some basic facts about poverty in the past and present for the sake of gaining historical perspective. As twentieth-century Americans, it is easy to lose sight of the fact that poverty has been the normal lot of the vast majority of mankind for most of recorded history. As the economic writer Henry Hazlitt has observed, "the history of poverty is almost the history of mankind."[3]

Poverty was the order of the day in the ancient world. Greek dwellings had no heat in winter, no adequate sanitary arrangements, and no washing facilities. The average Roman house was little better. Recurring famines took thousands of lives. In a famine in Rome in 436 B.C., thousands of starving people threw themselves into the Tiber River, so great was their desperation.[4]

General and widespread poverty was also characteristic of the middle ages. "Alternations between feasting and starvation, famines, crime, violence, scurvy, leprosy, typhoid, wars, pestilence and plague were part of medieval life to an extent we can hardly imagine today," wrote historian E. Parmalee Prentice. The homes of typical medieval laborers were hovels. The walls were made of

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boards cemented with mud and leaves; there was no sewage or water supply. The entire family was crowded into a single room or perhaps two, together with the family's animals.[5]

The Encyclopedia Britannica listed some thirty-one major famines from ancient times down through 1960. Famines are still common in the less developed countries. In modern socialist nations food shortages are still a recurring problem, as this recent headline attested: "Rationing of Sugar and Meat in Poland."

The fact of poverty as the "normal" condition of the human race began to change with the rise of the Industrial Revolution in the mid-eighteenth century. Through the benefits of modern science and technology, in the Western industrial nations poverty has been changed from the *normal* condition of the *majority* to the *abnormal* condition of the shrinking *minority*. It is easy to forget what a dramatic change this transformation has meant for the average person. The less developed nations are responding to a "revolution of rising expectations" created by the advances of the Industrial Revolution.

Here in the United States substantial progress has been made in the effort to reduce poverty to a residual level. Warren Brookes, economic writer for the *Boston Herald American,* has called attention to the fact that "In spite of spiraling inflation, and energy costs, socio-economic data now shows that less than 7 percent of all Americans live below the U.S. poverty line, and even this 7 percent live better than 85 percent of the rest of the world's population." While it may be true that the U.S., with only 6 percent of the world's population uses over a third of the world's energy, Brookes points out that the critics usually fail to mention that the U.S. produces 40 percent of the world's food, and supports nearly 80 percent of the world's private charities.[6]

Dr. Michael J. Boskin, a professor of economics at Stanford University, has recently called attention to features of the government's "poverty index" that tend to exaggerate the size of the problem. While the index is adjusted for inflation, family size and location, it excludes the actual cash value of transfer payments such as food stamps, subsidized housing, and medical care. "Even conservative estimates of the cash-equivalent value of these programs result in a startling discovery," writes Prof. Boskin, "only about 3 percent of Americans live below the poverty line."[7] If Boskin's analysis is correct, then the "war on poverty" in America is a war that has practically been won.

In the world as a whole, it is undeniable that there are multitudes of poor and hungry people. But even

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here there are signs of hope, and well-meaning reformers at times inadvertently exaggerate the magnitude of the problem.

In a recent issue of *Commentary* Nick Eberstadt argued that the figure of 30 million children dying of starvation each year quoted by World Bank president Robert McNamara was four times too high. The World Bank figures failed to take into account local variations in caloric needs. With the World Bank's methodology caloric deprivation would be ascribed to 48 percent of the population of Taiwan and to 40 percent in Hong Kong, but life expectancy in both places is over 72—about the same as in Finland or Austria.[8]

The world hunger situation has shown signs of improvement. In the past 30 years life expectancy in the less developed countries, excluding China, has risen by more than a third, and China's may be up by 50 percent. Since 1950 worldwide per-capita food production has risen by about 40 percent, in spite of dramatic population growth. Between 1950 and 1980 the world's arable land area grew by more than 20 percent, and even more rapidly in the poor countries as a whole.[9] These figures do not minimize the tragic proportions of the hunger and poverty that still exist in today's world, but they do caution against careless exaggerations that in the long run only retard the mobilization of the moral concern necessary to alleviate the problems.

The experience of the modern Asian states of Taiwan, Singapore, Hong Kong, and South Korea demonstrates that determined and energetic societies can overcome conditions of poverty. These once-poor societies have been notably transformed in the last 20 years through initiative and hard work. Singapore, a city-state hardly larger than Memphis, Tennessee, and without natural resources, has won 25 percent of the global backlog of orders for oil rigs, second only to the United States. South Korea is already the world's largest producer of black and white television sets. These Asian states are rapidly moving from traditional reliance on the manufacture of cheap garments and toys into the high technology areas, offering stiff competition to Japan.[10] Their experience shows that poverty can be overcome not through exploiting others, but through initiative, enterprise, efficiency, and hard work.

The Causes of Poverty

One popular theory about the cause of poverty might be called the "robber baron" theory. According to this theory, if I am rich and you are poor, it must be the case that you have been the victim of my exploitation and oppression. This point of view was popularized by Karl Marx, who believed that the relationship be-

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tween capital and labor was inherently that of oppressor and oppressed.

Now it is certainly the case that the poor can be exploited by the rich. The fact of oppression in human experience can not be denied, and it is common enough to make the "robber baron" theory plausible. We have heard such sentiments voiced by Julius Nyerere of Tanzania in the words quoted at the beginning of this article.

It would be a fatal error, however, to believe that *all* poverty is the result of oppression. The "robber baron" theory misunderstands the nature both of wealth and a free exchange in the market economy, and slanders the character of those who have become wealthy through personal initiative, insight, and hard work.

It is important to understand the nature of wealth in the modern world. Most wealth today is derived neither from exploitation nor from digging material resources out of the ground, but from discovering new ways of producing goods, organizing work, or processing information. As Max Singer and Paul Bracken of the Hudson Institute have observed, "much modern wealth isn't based on things at all, but on ideas, techniques, information, and other intangibles, such as new ways of motivating people or organizing work." They note that Japan's economic success "is the most dramatic evidence that wealth does not have to be based on natural resources."[11]

The invention of the computer chip has spawned a whole new industry and created thousands of new jobs. The computer chip represents a new source of wealth derived not from exploitation, but from human inventiveness which transformed ordinary sand into an instrument for processing information faster and more efficiently and in a tinier space.

The latest development along these lines is the "seeing eye" or "imager" chip. In a growing number of lumber mills logs are sized up by imager-chip cameras linked to computers that control the cutting saws. The result is five to ten percent more lumber per log. Again, the gain is the product not of "exploitation," but of human creativity.

Both Traders Benefit

Notice also that a free-enterprise economy is based on *free exchange*. The Beatles freely chose to write music and produce records, and millions of young people freely chose to exchange their money for those records. One may or may not like the music of the Beatles, but nevertheless it is the case that these musicians became millionaires many times over not through theft and fraud, but by freely producing a product that millions freely chose to purchase. A genuinely free exchange is not a "zero-sum" or "I win—

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you lose" situation, but a relationship in which both parties benefit. Unless both parties value what they receive more than what they give up, the exchange will not take place. The teenager valued the record more than the money required to purchase it, and the producer the money more than the record. In a free exchange disturbed by neither force nor fraud, both parties benefit and increase their sense of personal satisfaction. The "robber baron" or "rip-off" theory of poverty and wealth fails to understand the dynamics of a free exchange economy.

Another popular but mistaken idea today is that the wealth of the Western nations is the cause of the poverty of the Third-World nations. This contention is simply not supported by the facts. Some of the most affluent nations, such as Switzerland and Sweden, never had any colonies at all. Others, such as Germany and Japan, became wealthy only after losing their colonies. Some of the most economically underdeveloped nations—Afghanistan, Tibet, Nepal, Liberia—never were colonies of the West.[12] And in general, the Third-World nations that today are the most economically advanced are precisely those which have had the most extensive contact with the West.

As Professor P. T. Bauer of the London School of Economics has pointed out, "Before colonial rule there was not a single cocoa tree in the Gold Coast (Ghana); when colonial rule ended, cocoa exports, entirely from African-owned and operated farms, totaled hundreds of thousands of tons annually." In the 1890's, Malaya was a sparsely populated land of fishing villages and hamlets. "By the 1930's," notes Bauer, "it had become a country with populous cities, thriving commerce, and an excellent system of roads, primarily thanks to the rubber industry brought there and developed by the British."[13]

The fact of the matter is that the colonial system benefited the colonies as well as the ruling countries. Colonialization brought the introduction of schools, roads, banking, and business know-how without which much of the former colonies' present economic development would have been impossible. Resentful "robber baron" theories applied to the West by Third-World leaders influenced by Marxist ideology distort the historical record and short-circuit the personal initiative needed for upward economic mobility in their societies.

While scripture clearly recognized that poverty may be caused or aggravated by external circumstances such as oppression and injustice, it is equally clear that the Bible teaches that individual character is a crucial factor influencing one's state of poverty or affluence. It is clear that

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poverty can be caused by sloth and laziness. "A little sleep, a little slumber, a little folding of the hands to rest, and poverty will come upon you like a vagabond, and want like an armed man" (Proverbs 6:10, 11). "Slothfulness casts into a deep sleep, and an idle person will suffer hunger" (Proverbs 19:15). The sluggard neglects his own fields and vineyards, and suffers impoverishment as a result (Proverbs 24: 30-34).

The scriptures clearly call upon all to assume personal responsibility for their own lives and circumstances, rather than depending on government to provide for their basic needs. Rather than blaming impersonal environmental and structural conditions for one's poverty, the Bible encourages the individual to take personal initiative and actively exert the effort necessary to better one's personal circumstances.

A Personal Problem

In 1966 Professor James S. Coleman stunned the educational world with his massive study, *Equality of Educational Opportunity,* perhaps the second most expensive social research project in U.S. history. The conclusion of Coleman's study was that there was no measurable impact that public schools had had in eliminating or even modifying comparative achievements among students. This was a stunning blow to one of the basic liberal assumptions which had undergirded U.S. social and educational policy during the 1960's, namely, that spending more money on the public schools was an effective means of reducing poverty. This assumption saw the primary roots of poverty in the child's social environment, and the assumption proved to be mistaken. Coleman's results pointed instead to *family values* as the prime factor in educational achievement. It turned out that the character formation provided by a sound family structure, rather than "federal money thrown at a social problem" was the key to motivation and achievement in the public schools—a result that many people have suspected all along.

In 1970 Professor Edward Banfield of Harvard earned the wrath of much of the academic profession with his book *The Unheavenly City*. Banfield argued, contrary to the conventional wisdom, that the primary cause of poverty in the ghetto is not external but internal, and in particular, the self-chosen life-style of the majority of ghetto inhabitants. The problem according to Banfield is "present orientation," a set of values oriented toward "action" and immediate gratification, rather than planning, saving, and extended effort. Such a value orientation can not be changed merely by bigger schools or better job training, but only through a more fundamental moral and spiritual reorientation—a "con-

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version." Banfield's insights underscore the fact that poverty is basically rooted in a state of mind rather than in external circumstances.

The Work Ethic

It is intriguing to study modern history and notice how nations such as the United States, Canada, England, Germany, the Scandinavian countries, and Switzerland, which were significantly affected by the Protestant Reformation, have enjoyed great economic prosperity. Many factors were at work, of course, but nevertheless the sense of personal responsibility encouraged by the Reformation gospel was a powerful stimulus to economic improvement.

One of the ironies of the modern world is that the "Protestant work ethic" seems best exemplified in non-Christian states such as Japan, Singapore, South Korea, Taiwan, and Hong Kong. Insofar as these new industrial giants of Asia have applied the biblical work ethic they have enjoyed remarkable economic prosperity. This is no confirmation of a doctrine of "salvation by works," but of the simple principle that God can grant temporal blessing to righteous behavior wherever it may be found.

When Kim Kyang Won, secretary general to South Korea's president, was asked about the reasons for his country's progress, he replied, "It's the culture of discipline and postponing immediate satisfaction for the future—even for posterity."[14] Such character traits have encouraged a national investment rate of 25–35 percent of the Gross National Product, twice the U.S. rate.

Americans of all faiths can learn from the Asian example of diligence and future-orientation. Being the "salt of the earth" in our own society implies the demonstration of such character traits. God's temporal blessings can then be directed not toward needless self-gratification, but toward the meeting of legitimate needs in the wider human community.

—FOOTNOTES—

[1]Cited by Charles Krauthammer, "Rich Nations, Poor Nations," *New Republic,* April 11, 1981, p. 20.

[2]Cited by Jim Wallis, "Of Rich and Poor," *Post American,* February/March 1974, p. 1.

[3]Henry Hazlitt, "The Problem of Poverty," *Freeman,* June 1971, p. 323.

[4]*Ibid.*

[5]*Ibid.,* p. 324.

[6]*Boston Herald American,* December 21, 1979, p. A9.

[7]Michael J. Boskin, "Prisoners of Bad Statistics," *Newsweek,* January 26, 1981, p. 15.

[8]Nick Eberstadt, "Hunger and Ideology," *Commentary,* July 1981, p. 41.

[9]*Ibid.,* p. 43.

[10]Louis Kraar, "Make Way for the New Japans," *Fortune,* August 10, 1981, p. 176.

[11]Max Singer and Paul Bracken, "Don't Blame the U.S.," *New York Times Magazine,* November 1976, p. 34.

[12]*Ibid.*

[13]P. T. Bauer, *Western Guilt and Third World Poverty* (Washington, D.C., 1976), pp. 3–5.

[14]Kraar, *op. cit.,* p. 179.

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Edmund A. Opitz

The Genial Mr. Nock

BRING TOGETHER the shades of Erasmus, Shakespeare and Goethe and try to imagine what they would do. Play poker? Visit the Stock Exchange? Absurd! They would talk together. The precious converse of noble minds is the most truly human of all human relations, and demands at least as much artistry as Kreisler brought to the Mendelssohn Concerto. It need not be argued that Albert Jay Nock belongs on the same plane as the aforementioned to assert that he was of their spirit and that he did bring a considerable finesse to any discussion. Nock loved good talk; kindled by a responsive companion he was a brilliant conversationalist. He loved good food as well, but a meal was primarily a means of lubricating the flow of ideas. To the table he brought a mind trained and tuned to concert pitch, a mind well stocked with ideas gleaned from great literature and broadened by wide experience here and on the continent.

Nock's ideas were perhaps not so original as he was, but he had made them his very own; his thinking ran along lines quite at variance with the familiar channels scooped out by the popular pundits of the nineteenth and twentieth centuries. Having framed his convictions independent of any school or party, he was able to view the intellectual passions and battles of the day with clinical detachment. Consequently, he appeared to many of his contemporaries as a man of monumental prejudices, almost an anachronism.

Convictions or prejudices, Nock orchestrated his brilliantly, and

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would on occasion—I am told—discourse over food barely touched while his dinner companion downed a hearty meal. "Lingering over the table," writes Felix Morley, "we touched on many subjects, all of them irradiated by the light of his brilliant mind and mellowed by the warmth of his personality." "Ideas never failed him," Ellery Sedgwick adds. "Others have their storehouses of learning, but Nock's mental files were available on the instant. The classics, all of them one might say, French memoirs, learning polite and impolite, everything neatly classified and pigeonholed."

All this is as it should be. In "The Decline of Conversation," an essay in the collection entitled *On Doing the Right Thing,* Nock remarks that "The civilization of a country consists in the quality of life that is lived there, and this quality shows plainest in the things people choose to talk about when they talk together, and in the way they choose to talk about them." In good conversation there is a symphonic quality, themes and variations, a blending and harmony of widely ranging minds which take delight in ideas for their own sake, minds able to play freely over and around ideas without prepossession and willing to follow an argument wherever it leads them. In a debate there's a loser, but in a discussion there are only winners.

Nock projected some quality—we'd call it charisma today—which caused those in his company to surpass themselves. "You find yourself coming out with things you didn't know you had it in you to say," recalls a friend.

A Living with Others

Conversation is "a living with others," the dictionary tells us, "a manner of life." It's a cultivated way of handling leisure, and it has a synergistic effect on the people involved—provided they meet Rabelais' test, being "free, well-born, well bred, and conversant in honest companies." For it is the amiable who shall possess the earth, sang the Psalmist (Ps. 37); not the sectaries who see things through the distorting lens of the ego and try to conscript every idea into the service of a faction. The True Believer cannot become a good conversationalist, for "conversation depends on a copiousness of general ideas and an imagination able to marshal them." It's an intellectual dance of reciprocal inspiration, exhibiting "a power of disinterested reflection, an active sense of beauty, and an active sense of manners." AJN thought of his *Freeman* as a sort of conversation, "a fellowship of fine minds in all parts of the globe."

Nock came into full possession of his powers during his editorship of *The Freeman,* 1920–1924, from his fiftieth to his fifty-fourth year. He

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had had a solid grounding in the classics at St. Stephens, and his valedictory address to the class of '92 reveals a remarkably disciplined mind for one so young. He went on to earn a graduate degree in theology, then furthered his education informally during the next two decades by reading and travel—steeping himself in the worlds of scholarship, culture, and affairs.

As his inner life ripened the visible man followed suit; slim, poised and assured, impeccably attired—a commanding presence. He became the Albert Jay Nock his friends knew during his *Freeman* days and after; a man of immense reserve, a person around whom legends cluster, a writer whose erudition and prose style earned him a select following—larger now than the corporal's guard he had a generation ago. It was not in him to become a popular thinker and writer; he wrote for the Remnant and tried to do a solid body of work for the future. "The first rate critic's business," he wrote, "is to anticipate the future, work with it, and look exclusively to it for his dividends." The future Nock worked for is catching up with him!

Autobiography of Ideas

Nock was a virtuoso in these matters, and we shall not see his like again. But we can follow his development as meticulously set forth by the man himself in *Memoirs of a Superfluous Man*. This book (whose title summons up Turgenev) is not an autobiography in the usual sense of that term. Every suggestion that he write a book about his life was rejected with annoyance—until a friend suggested "a purely literary and philosophical autobiography." Nock fell in with this notion because, as he said, "every person of any intellectual quality develops some sort of philosophy of existence; he acquires certain settled views of life and of human society; and if he would trace out the origin and course of the ideas contributory to that philosophy, he might find it an interesting venture." Thus, the *Memoirs*, "the autobiography of a mind in relation to the society in which it found itself."

The Nockian Society, 30 South Broadway, Irvington, N.Y. 10533, offers Nock's *Memoirs* at a discount price of $3.00.

Nock closes his final chapter, privacy still intact; but the attentive reader's mind has been subtly invaded, and it would be a dull fellow indeed who could deny that the hours spent with this book were not among his most memorable reading experiences. Nock discourses on education, literature, women, politics, economics, religion and death, and he does so in matchless, eighteen

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carat English prose, spiked with apt quotations and laced with allusions. Nearly a lifetime of reflection had been spent on each of the topics here aired, and this book is Nock's final statement and testament. It is the book by which he will be finally judged, the one in which he himself took most satisfaction. It is a book to be enjoyed and then mastered; and as the dyer's hand is stained by the medium he works in so does the magic of the *Memoirs* work on a person's whole outlook and philosophy.

His Life Abroad

Nock's *Freeman* has an enviable reputation in American journalism, ranked as the high water mark by many. After four glorious years it ceased publication with its issue of March 5, 1924, having bade farewell to its readership a month earlier. An item in AJN's final Miscellany column offers a rueful reflection on the contemporary civilization.

Nock notes that deep grooves are worn in the wooden counters of the change booths in the older elevated railway stations, and muses, "There seems something symbolic about them. They are in their way, a testimony to the nature of our civilization; they are our counterpart of the grooves worn in the stone steps of European cathedrals by the feet of innumerable devotees." With this parting shot he left these shores to live and work abroad for long periods during the next fifteen years. These were fruitful years, marked by his brilliant Rabelais scholarship, his classic essay on Jefferson and another on Henry George, his book on the State, *A Journal of These Days,* and numerous articles in magazines like *Harper's, The Atlantic,* and *The American Mercury.* World War II brought him permanently back to these shores, where he lived his final years.

A month before his death he wrote to a friend, "I have been really quite ill, feeble and worthless, and have now reached the point of letting the quacks roll up their sleeves and do their worst ... I'll keep you informed, or some one will, but I foresee I shall not be writing much at length. On his last day Lord Houghton said, 'I am going to join the majority, and you know how I always prefer the minority.' Witty fellow!" The minority lost AJN on the nineteenth of August, nineteen hundred forty five.

It is Nock's attitude toward life that chiefly interests us, the demands he put upon it, his expectations of what it had to offer him, his tactical approach as he sought to avail himself of its bounty. Open the *Memoirs.* It is a fair presumption that the quotation Nock selected for the title page of this book had a special meaning for him. We read the familiar testimony of Sir Isaac Newton: "I do not know what I may appear to

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the world, but to myself I seem to have been only like a boy playing on the seashore and diverting myself in now and then finding a smoother pebble or a prettier shell than ordinary, whilst the great ocean of truth lay all undiscovered around me."

The seashore is broad enough to support a related analogy, having to do with the search for truth. This time imagine that the man at the water's edge is blind. He's just been told that a message of enormous importance from someone he loves is written in the sand in Braille, and that the incoming tide will soon obliterate it. There's no time to spare, so no wasted motion! Loss of vision has keyed up the man's other senses, and the heightened expectancy generated by this crisis situation pushes alertness and sensitivity still higher. But he restrains himself. He knows that if he thrusts his fingers too rudely against the sand his contact with the letters will erase them; so, he gets himself out of the way and deliberately, with the utmost delicacy, eases his hands over the sand until he establishes tactile contact with the Braille, at which point he brings all his finesse into play and lets the message seep through his fingertips.

Alert-Passivity

This points to the attitude or posture of alert-passivity, of interest-affection, which some people are occasionally able to bring to bear. Nock exemplified this kind of receptivity no matter what his immediate preoccupation—writing, reading, editorial work, convivial relations. "They have helped the truth along without encumbering it with themselves," said Artemus Ward of men of his stripe. Nock was fond of this sentence, for it defined his style, and suited his temperament. Would his style have been different if Nock had been one of Sheldon's mesomorphs, inclined toward somatotonia? The speculation is vain. He was what he was, and we can say only that bodily make up and chemistry did not stand in the way of his characteristic approach.

Most of our contemporaries are arrayed on the other side of the fence. They are what H. G. Wells used to refer to as "gawdsakers." Nervously apprehensive that the world is about to go to hell in a handbasket the typical Modern runs around yelling "For gawdsake let's do something!" He has wearily accepted the joyless task of straightening out the cosmos, and the first step is to improve others. The incomparable John Dewey gave us marching orders when he announced a new role for the intellect. No more for us the old delights of knowledge to be enjoyed for its own sake; mankind has come of age, having graduated "from knowledge as an esthetic enjoyment of the properties of nature regarded as a work

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of divine art, to knowing as a means of secular control . . . [Nature] is now something to be modified, to be intentionally controlled."

Mr. Nock would have none of this, for he knew that a culture which denies or perverts the claims of intellect and knowledge will pay dearly for it. So, within the limits of his native reserve he took a refined delight in people and things as they really are, to be enjoyed for their own sake. He knew that joy is not only the first fruit of the spirit but the first business of the critic as well; "his affair is one only of joyful appraisal, assessment, and representation," as he put it in the essay on Artemus Ward. Nock goes on to say, "that for life to be fruitful, life must be felt as a joy; that it is by the bond of joy, not of happiness or pleasure, not of duty or responsibility, that the called and chosen spirits are kept together in this world."

Underlying an attitude such as this is a profound confidence in the cosmic process. The Universe is biased in our favor so we are entitled to enjoy the scene while nature takes its course. This is not dull passivity; it is akin to the alert-passivity a skilled horticulturalist displays as he nurses along an exotic bloom in order that the plant might become what it really is. The Reformer forgets that only God—or Nature—can make a tree . . . or a society. Society is not some entity that can be gotten at directly to improve it; a good society is a bonus, a by-product of men and women pursuing with some measure of success the life goals appropriate to human nature. If the major social instincts and drives are not given harmonious and balanced expression the society is warped and unlovely as a result.

The social drives in Nock's catalog are five in number, and he indicts modern culture for allowing the claims of only one of them. The claims of intellect and knowledge have been disallowed; likewise the claims of beauty and poetry, religion and morals, social life and manners. Only the instinct for making money and getting on in the world has been turned loose, he charges, and a civilization mired in "economism" is the result. This is a consequence of ideas, wrong ideas, and any cure must begin by repairing our faulty thinking.

Society cannot be improved by working on the level of events; once things have gotten this far they are in the past tense. Reformers work on events, which is why the world is periodically wrecked by those who set out to save it. Talleyrand, watching one such series of events unfold, pointed to the person who had set them in motion and remarked sarcastically: "I knew that man would save the world, but I did not know he'd do it so soon!"

The only enduring reforms are

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those which take place below the surface of events; that's where the future is being born. And all you can reform there is yourself—provided you start early enough and live long enough. The only thing you can do for "society," Nock contends, is to present it with one reformed unit. Having sounded this hopeful note, what was Nock to do except declare for superfluity?

Letting Things Alone

It is not Nock's way to make a point by means of a philosophical disquisition; his teaching method is parabolical. He let people alone and he let things alone, believing that there are forces at work in them which make for integration and growth—if we don't interfere. Interfering comes naturally, however; letting things alone is an acquired skill. A taste for this skill seeps in as we begin to understand how vast are the regions beyond conscious human control and how well things function in those realms.

Turn to the essay entitled "Snoring as a Fine Art" found in the collection bearing that title. General Kutusov commanded the Russian forces arrayed against Napoleon. No question about Kutusov's competence or his courage, but why didn't he provide some action? Why didn't he engage the French army head on and give Napoleon a thorough trouncing? Why did he snore through staff meetings? Well, Nock contends, it was because the General was playing hunches; he "sensed" what the little Corsican was going to do—and that's what Napoleon did! The French made one blunder after another—as Kutusov knew they would—and virtually engineered their own defeat.

The point is that some people have the ability to quiet the conscious intellect and let other parts of the mind supply guidance. Nock is more nearly on his own ground when he cites the instance of Wordsworth. "Wordsworth unquestionably had something; and when he was content to leave that something in charge of his poetical operations—when he resolutely bottled up the conscious and intellectual Wordsworth, and corked it down—he was a truly great poet. When he summoned up the conscious Wordsworth, however, and put it in charge, as unfortunately he often did, the conscious Wordsworth was such a dreadful old foo-foo that the poetry churned out under its direction was simply awful."

Nock does not disparage the intellect and the "knowing" peculiar to it when he writes: "Socrates knew nothing, and was proud of it. He carried the magnificent art of Not-Knowing to the legal limit, and oh, my dear friend, what an incomparably great and splendid art that is!"

It has been pointed out by Michael Polanyi and others that there is a

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"tacit dimension" in all knowledge, that in any epistemological situation we actually know more than we are consciously aware of. A great diagnostician examines a patient and, in addition to observing specific symptoms, takes in the person as a whole before offering his conclusion. After the conscious intellect has done its job you work from the "gut," the place where you store "useless" knowledge.

Acquiring Vast Knowledge—and then Forgetting It

The essay entitled "The Value of Useless Knowledge," found in the collection entitled *Free Speech and Plain Language,* draws a sharp distinction between Pedantry and Culture. "The pedant's learning remains too long on the surface of his mind; it confuses and distorts succeeding impressions, thus aiding him only to give himself a conventional account of things, rather than leaving his consciousness free to penetrate as close as possible to their reality, to see them as they actually are . . . Culture's methods," on the other hand, "are those of exercising the consciousness in a free and disinterested play over any object presented to it." And this, Nock affirms, "Means acquiring a vast deal of useless knowledge, and then forgetting it."

Nock is talking about residual knowledge, so thoroughly known that we do not need to attend to it; it attends to us. Analogously, years of training have educated a pianist's fingers to the point where, if he tried to direct them individually over the keyboard, they'd rebel and refuse to play even the simplest melody. It is not to diminish the role of the conscious intellect to point out that there is layer upon layer of mind beyond the intellect, and that for some purposes the intellect must be stilled if we would avail ourselves of this pool of "useless knowledge." When this thought finally sinks in the Social Planner with his "rational controls" will be an extinct breed. Adam Smith's Invisible Hand can be trusted, the market works, there's coherence in the nature of things and its wisdom is put at the service of those willing to cooperate with it.

An essay in *Snoring* invokes the court jester to illustrate the tactic. The jester, because of his outlandish appearance and his wry humor, could say things to the king which would cost the court philosopher his head. Today's counterpart of the fool is the cartoonist and the witty newspaper paragrapher. Nock says he gets more sound sense out of these men than from the editorial writers, for the best of them have "an intuitive sense of the plain natural truth of things," and they deliver it up to us in a mode we can accept. "They arouse no animosities, alarm no pride of opinion, nor do they seek to beat a person off

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his chosen ground—under their influence his ground imperceptibly changes with him."

Suzanne LaFollette was the editor of *The New Freeman,* which began publication with the issue of March 15, 1930, and ran for a little more than a year. Nock contributed a column called "Miscellany," using the pseudonym Journeyman. These vagrant paragraphs were later collected and published as *The Book of Journeyman*. Nock viewed contemporary American culture with a critical eye, finding little to like in it. He referred to it as an idea-less world. Education, music, manners, religion, business, politics—his raillery played over them all. He surveyed Europe and reflected ruefully that everything about it he admired came out of a philosophy at variance with his own. Besides sound theory, he muses, you have to have the right kind of people to work it, and where are you going to get 'em? We look for a new formula when what is needed is a new vision of the human person, his powers and his potential.

In the course of this survey we've picked up only a few bits and pieces as we've skirted the shore of the main body of Nock material; the next step has to be total immersion. He's to be read, mainly because he's fun to read; even when he's wrong he's delightful. Most of the time he is right, I believe; his judgments are sound. And the spirit and temper which pervade his pages gently nag at the reader until he agrees that "educate" is not a transitive verb. The only education is self-education and Albert Jay Nock has already blazed that trail.

IDEAS ON LIBERTY

THERE IS NO social engineering that can radically renovate a civilization and change its character, and at the same time keep it going, for civilization is an affair of the human spirit, and the direction of the human spirit cannot be reset by means that are, after all, mechanical. The best thing is to follow the order of nature, and let a moribund civilization simply rot away, and indulge what hope one can that it will be followed by one that is better. This is the course that nature will take with such a civilization anyway, in spite of anything we do or do not do. Revolts, revolutions, dictatorships, experiments and innovations in political practice, all merely mess up this process and make it a sadder and sorrier business than it need be. They are only so much machinery, and machinery will not express anything beyond the intentions and character of those who run it.

ALBERT J. NOCK, *A Journal of Forgotten Days*

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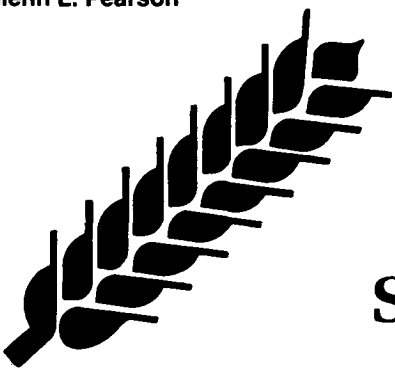
Glenn L. Pearson



Socialism Eats the Seed Grain

One of the moral tragedies of socialism is that its economics is not built on savings, but on consumption. And this, also, is one of the main reasons it always has failed and always will fail. Economic failure is tragic because it means deprivation that can disrupt human plans and go even so far as to take human lives. In fact, starvation is a common aspect of life in countries where some type or another of socialism has been in operation long enough to have dissipated whatever wealth had accumulated prior to the socialist takeover. In those countries where poverty was already present when socialism was introduced, such as in some post-World War II African nations, starvation began immediately. Of course, starvation of the body is not as great a tragedy as starvation of the soul, if you believe in a soul. The materialistic socialists, who theoretically believe only in this life, should be especially offended by starvation—the ultimate indignity if there is no soul.

Some will point to Russia and China as examples of socialist countries which have accumulated capital and passed the starvation point. But those who do so are very uninformed about how much capital was already there. Perhaps they do not know about how much outside help Russia and China always have received by fair means and foul. Also, they must not know about how much free enterprise is actually allowed in Russia and China and how important it is to their survival. And, fi-

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nally, they are tragically unaware of how well Russia and China conceal the realities of life in some areas within their spheres of influence. Hints of horror continually drift out of the nations that have been caught in the webs of these giant spiders. With a few oft-repeated and carefully-selected releases, the liberal media, which preside over the minds of most of the West, tell us what they want us to believe as the following comments from one who was once one of them reveal:

> It is not surprising, in view of this state of affairs, [The ruthless power Russia exerts on the foreign press.] that the world has been consistently misinformed about Russia, and that the Soviet Government has been able to put across a lot of bogus propaganda. It is fantastic, for instance, that there should still be any doubt about the question of forced labour and religious persecution, and Valuta [Money, especially gold and silver coins, that has other than fiat value.] extortion, and peasant shootings, and, in general, the character of corrupt dictatorship. But there is. (*Like It Was, The Diaries of Malcolm Muggeridge,* Selected and Edited by John Bright-Holmes; William Morrow and Company, Inc.: New York, 1982, p. 54)
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> . . . I managed to make my way by myself to the Ukraine and the Caucasus to report on the famine conditions there as a result of Stalin's enforced collectivization of agriculture. The articles I wrote describing the suffering and privations of the peasants, and the monstrous brutality of their treatment, were dispatched to the *Guardian* by diplomatic bag to avoid the censorship, and I knew that when they were published my position would be untenable. The articles duly appeared, heavily sub-edited, but even so caused some stir. In both the *Guardian* and the *New Statesman* letters were published calling me a liar. For confirmation of the truth of my report I had to wait for Khruschev's speech at the 20th Party Conference in 1956, in which he gave his account of the 1933 famine and its consequences, showing mine to have been, if anything, an under-statement. . . . (*Ibid.,* pp. 73, 74.)
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> . . . *Winter In Moscow* had appeared and been reprinted, but, if anything, it hampered my efforts to get a job in Fleet Street. As I discovered, taking a strongly critical view of the Soviet regime and its bosses was a handicap rather than a help as far as the national press was concerned; the more so in my case because my abhorrence of a Marxist dictatorship as operated from the Kremlin did not make me any better disposed towards a capitalist economy as operated from the City of London or Wall Street. Although I did not recognize it then, the liberal consensus which was to provide the orthodoxy or Party-Line of the so-called free world, was already in process of formation, and beginning to be enforced. (*Ibid.,* p. 77.)

But physical suffering is never as tragic or long-lasting as spiritual suffering. Great spiritual damage is done to people who are led to believe that economic problems can be solved without savings—the accumulation of capital. The virtue of frugality and the evils of profligacy are the subject

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of many pages in the great religious books of all world religions. The reasons are easily seen by thoughtful people of all faiths, and even by those who claim no faith. In the early days of the American frontier there was a saying worth pondering long: "Don't eat the seed grain." Socialism regularly eats the seed grain.

The Steps to Progress

The free market proceeds in a very orderly, step-by-step, manner. Step one is vision. The poor, but free, man sees himself improved by his own labor. His is not the vision of a robber whose soul covets the rewards of another man's toil. And it is not the vision of a fool who can be enticed into a get-rich-quick scheme: he doesn't plan to give his meager surplus, when he has saved it, to someone who presents an image of cleverness and strength superior to his own. He will rely on his own arm and the help that lies at the end of it. So his vision is clear and specific. He knows always just what he needs in order to do more efficiently just what he does well already.

Step two is to go through the sacrifice and self-denial of living on less than he earns for however long he must to save enough to purchase some tool or capital good that he needs to increase his productivity. He has vision for muscle and hope for fat to keep him going. He even may have to beg to get to the point where he can save. The socialist world has forgotten that it is better to beg than to steal, that it is better to give what is your own than what you took from another, and that it is better to look for those in need than to wait until they unite and break down your door. Socialists visualize a utopia where hungry mouths are filled with legal plunder. And they forget the blood and tears that follow the plunderers, the tax men.

Step three is the purchase of the capital item. It may be nothing more than a cultivator to take the place of a hoe to use in a garden that will now produce more—maybe enough for a wayside fruit and vegetable stand. Or it may be enough to purchase a fast-food franchise so the family can have a business instead of a lifetime of the bondage of wage-earning and unemployment lines. To a nineteenth-century Jewish or Italian immigrant it may have been a push-cart for a vending business which, from that humble beginning, could have grown, in one lifetime, to a million dollar enterprise if the same virtues that started the business were perpetuated when it succeeded.

Self-Control

The common element of all virtues is self-denial. If you would not murder, deny yourself the luxury of anger. If you would practice moral rectitude, deny your mind evil thoughts and your eyes enticing im-

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ages. If you wish to possess the soul of one who can be trusted with other men's money and goods, kill your covetousness by being quick to give the poor what they need when they ask if you are able. Don't send them away with a promise of future generosity if you have the means to do it right now. This will make it possible to be wealthy and yet not feel guilty in your wealth like the rich prophets of socialism do. Socialism takes this pleasure and virtue of giving away from you. Remember, a bitter fountain cannot bring forth good water. Charity must be voluntary to be virtuous. Those who practice voluntary charity are improved by it. The reason it works is that self-denial becomes a habit, a way of life; and it is the fuel which runs all those who achieve great and good goals—those whose labor is the foundation of all the good production of this world.

Step four, of course, is that careful and industrious use of the capital item purchased from savings. And step five is the same process all over again—vision and self-denial practiced on a high enough level to insure replacement of the capital item when it is worn out. And more: there must be a greater savings than before because there is greater income. And one who can start this kind of program for the purpose of greater consumption—improvement of the living standard—must not make consumption an end in itself or he will lose the virtue that saved him from starvation in the first place.

The Socialist Program

The first step in the socialist program of improvement also begins with vision. But it is not the vision of an individual trying to improve his lot with his own labor and his own capital, saved, begged or borrowed. It is the vision of conspirators who have looked at the misery of mankind and have appointed themselves as the saviors of the unfortunate. Calling them conspirators is neither overly dramatic nor an exaggeration. They fit any reasonable standard for the use of the word. It is an interesting fact that it is almost impossible to get good people to conspire to do anything. They mostly want to be about their own business and rarely presume to know enough to plan the lives of others.

Yes, "big business" has been caught in conspiracies quite regularly during the past several decades. But, other than those cases that are misrepresentations and of the sort that fit the damned-if-you-do and damned-if-you-don't dilemmas served up by government agencies, it can be shown that government planners either handed them the opportunity or forced them into it. Almost nothing that is going on in American business today is pure free enterprise. Indeed, no business activity is

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untouched by the laws, bureaus and regulations that burden and warp the free market. However, set American business aside and think of the typical model of socialism. In that case, you surely have a set of planners who have come into power by a conspiracy. It is their vision that is step one in the socialist plan of improvement.

Step two is the production planning session where they decide how many cars, widgets, tooth brushes, and the like they shall manufacture. They never get it quite right even though they peek at the free market, as Ludwig von Mises was the first to point out.

Step three is the allocation of resources. Of course, step two and step three have to be coordinated or done together. The one asks, "What shall we make?" The other asks, "How much capital will we be able to get our hands on to do it?"

Step four is the confiscation of or gathering of capital. Theoretically a socialist state already has all the capital that exists in the country. But, since there is never enough capital to wage the perennial wars of socialism and feed, clothe and shelter the masses, the socialists must be ever alert for new sources of revenue. There are the countries they have "liberated" to be stripped and an eye must be kept on the sneaky peasants who find ways to save from their meager allotments. So socialist countries have taxes, too. And they have rules against hoarding things that could add to capital for socialist production. After all, it takes capital to produce whether the economic system is socialist or private. In the socialist system the capital is "appropriated" by some compulsory (involuntary) means. In the private enterprise system, it is accumulated by savings based on voluntary self-denial.

The socialist step five is the production step. It is common knowledge that production rarely meets any of the goals set by the planners. This has led to many purges. The socialist mind tends to believe that the solution to greater production lies in the quality of the supervisors rather than in the quality of the system. This results in grave injustices in who knows how many cases. And it creates a system of cruelty and jeopardy. Also, it trains the masses to lay blame on the government for all problems instead of developing self-reliance.

Saving Discouraged

That's how socialism eats the seed grain: it uses up and eliminates all desire to save. It punishes and discourages all savers. There is no motivation to do anything but consume—get one's share and eat it up. It is like opening day of fishing season: many fishermen want to follow the stocking trucks and get "their" limit. They expect the state to keep

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the waters stocked with catchables. If the fishing is bad, they grumble and feel that the state has failed them. The care of the back and the belly becomes the immediate and pressing need, the whole object of occupation and preoccupation except for the circus. There must be the circus in addition to the bread. It comes in different packages from country to country and time to time.

People are the most important asset of a nation when they are free to be productive and responsible for their own capital. But, when weak and discouraged, they are the greatest liability. Then a man may just as well be an alimentary canal with a funnel for a mouth, wrapped in an overcoat and housed in a mobile latrine. All the things of the soul cease to have meaning.

Saving, Foreign Aid, and Growth

IDEAS ON LIBERTY

THE MAIN resources and the main effort for growth must come from the growing nations themselves. American aid can usefully complement, but can never replace, their own means and endeavors. Indeed, gifts and loans are not the major contribution we can make to economic growth abroad. More important is that we maintain a fully and efficiently employed and expanding economy of our own and that we maintain free access to this economy by the rest of the world. In neither good sense nor in good conscience can we expend our resources on foreign aid while at the same time leaving clogged the channels of foreign trade and investment.

Finally, we must appreciate that the world is a complicated place. In important respects, it is far more complicated and discouraging for today's economically underdeveloped countries than it was for the underdeveloped nations, including the U.S., of 150 or 200 years ago.

In America, the cultural background; the supply of acquired skills of workers and of experienced investors and managers; the legal, religious, and economic institutions; the climate; the endowment of natural resources; the ratio of population to other resources—all were favorable to growth and, by and large, remain favorable to continued growth. Not all areas of the world are so blessed. And even if they were, the living standard of this part of the world is now far higher than that of most regions—and it is very likely that the size of the gap will grow much larger during the next several decades.

WILLIAM R. ALLEN

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BLAMING TECHNOLOGY

WHEN Samuel C. Florman, the vice president of a construction company, wrote a provocative book called *The Existential Pleasures of Engineering*, he found himself invited to take part in dozens of debates with proponents of the anti-technological movement. Visiting the college campuses, he discovered that professors could be deceptively serene. Jovial at dinner, they nonetheless carried theories "under their tweeds like stilettos." Their students, "after disarming a visitor with wide-eyed veneration," delighted in tossing up "challenging statements like cherry bombs." A scientist by training, Mr. Florman decided that academia was not a likely place to hunt for the truth.

It somehow got under Mr. Florman's skin when he heard a young man, with professorial encouragement, disparage farm tractors in comparison with oxen. But Florman's mood really soured when a young woman solemnly arose to announce that the building they were meeting in should never have been built since it was constructed on terrain sacred years ago to an Indian tribe.

Florman's adventures in academia provoked him into writing a second book, *Blaming Technology: The Irrational Search for Scapegoats* (St. Martin's Press, 175 Fifth Avenue, New York, N.Y. 10010, 206 pp., $12.95). It is a markedly gentle book considering some of the violent speeches that moved Florman to undertake a work that had to be done.

Florman concedes that we live in a world filled with ambiguities and paradoxes. The good points of oxen can be admitted: they don't consume gasoline, and they provide manure to enrich the soil. Their only drawback is that they are no longer capable of ploughing Kansas in a way to feed the world. As for the Indians who once hunted in Michigan woods, Florman does not quarrel with the idea that they were wronged. But

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Hiawatha has been a long time dead. Demolishing a modern building would not give him back his tepee.

Whatever ails business in the United States today, it is not the fault of engineers. Simply by analyzing *Who's Who in America* Mr. Florman deftly refutes the notion that we are run by technocrats. Despite John Kenneth Galbraith, who thinks power resides with the planning staffs of a "technostructure," our industries are still guided by graduates of liberal arts colleges who, in many instances, have gone on to law school. During the past thirty years only 7 per cent of our college graduates have had engineering majors. Lawyers, not engineers, make our laws in Congress. Mr. Florman concludes, quite sensibly, that "the myth of the technocratic elite is an expression of fear, like a fairy tale about ogres."

The army engineers, who have a direct impact on the environment, have been called Public Enemy No. 1 by Supreme Court Justice William O. Douglas. Florman does not deny that there is such a thing as "big dam foolishness" in some parts of the West. But the environmentalist in him is pleased every time he sees a barge being propelled gently along a man-made waterway. If we didn't have barge canals—and deepened rivers—we would have to compensate by building more concrete highways for roaring trailer trucks. On balance, the army engineers haven't done such a bad job in developing our inland waterway system. If they have done harm to wetlands, it was in a day when the worth of wetlands was not clearly understood by anybody.

Florman understands the phenomenon of nuclear *Angst*. When, some three months before the Three Mile Island disaster, he visited the Connecticut Yankee nuclear plant in Haddam, Connecticut, he felt that *Angst* as he gazed at the pale blue glow of the nuclear pool. It seemed unearthly. He recognized his dread as irrational, but he understood the general hysteria that was to come in the wake of Three Mile Island. With people thinking as they do, he takes the need for providing for the disposal of nuclear waste very seriously. The apprehensions of ordinary people, he says, must be factored into our nuclear decisions. Florman is for mixing boldness and caution in going ahead with nuclear projects, but he would take it as a political blessing if fusion (a safe process) would come along to make power from fission academic.

Small Is Dubious in an Age of Mass Production

When Florman encounters smallness in the shape of a canal barge, he delights in it. But the whole "small is beautiful" movement, which produced a book by E. F. Schu-

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macher that sold a million copies, does not impress him. "Small is dubious," he says, for it results in such silly business as installing wind-powered pumps in India where they have long seasons of windlessness. The ironies that attend the "small is beautiful" craze are practically limitless. Large technologies and small are inevitably intertwined. The backpack, for example, is what Florman calls "the very essence of the counterculture life-style." Yet the backpack is made of aluminum and nylon, both of which require very large energy-intensive, mass-production technologies. Even the bicycle depends on large-scale mining and metallurgy.

Florman pays his attention to regulation as practiced by the Federal Trade Commission. He discovers that it is over-legislation, not over-regulation, that is the basic cause of the FTC's troubles. If our Congress were not so "over-lawyered" and "under-engineered," the regulatory agencies would be provided with better rules. They would not be compelled to keep plastic pipe out of buildings in deference to the plumbers' unions, which prefer the more labor-intensive cast-iron pipes.

Florman thinks the Club of Rome, which was started by Aurelio Peccei, an Italian industrialist, to give quantitative expression to such things as population growth, mineral resources, food supply, pollution and poverty as they affect each other, is well-intentioned. The Club is looking for nothing less than a mathematical model for the whole world. As a beginning, its first publication, *The Limits to Growth,* was designed as a report to the Club, not as a statement of Club policy. Unfortunately, the statement of exponential growth trends was taken as a slap at the very desirability of growth. The Third World countries considered this an affront. "How," so the Third World nations asked, "can you have the effrontery to talk about limiting growth while we are starving and impoverished, just planning to embark on some growth of our own?"

The Third World's fears are well-taken. Florman considers the publication of *The Limits to Growth* to be valuable in a negative way. "People," he says, "will indeed take action, not only because of automatic factors such as price changes (whose effect the report has possibly underestimated), but because of reasoned programs resulting from forecasts such as the report itself."

In other words, exponential curves are never a proof of the inexorable. Population trends can be reversed or be made static; new metals can be substituted for old; plant geneticists can give us higher corn yields, and so on. There is even a possibility that the world will cease to spurn the professorial engineer.

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THE MAN VERSUS THE STATE
by Herbert Spencer
Foreword by Eric Mack; Introduction by Albert Jay Nock
(Liberty Classics, 7440 North Shadeland, Indianapolis, Indiana 46250)
518 pages ■ $13.00 cloth, $6.00 paperback

Reviewed by Edmund A. Opitz

It was Albert Jay Nock who acquainted me with Spencer's book on the State. Nock used to appear regularly in Paul Palmer's old *American Mercury,* and in 1938 devoted one of his columns to *Man versus the State.* This book, Nock averred, was the best single volume ever written to counter the New Deal ideology, and it said little for the perspicacity of the conservative and business opponents of the welfare state, he added, that they had let this book go out of print.

Shortly after reading this essay on Spencer I wandered into a little bookshop on Copley Square—led by the invisible hand, no doubt—and for one buck picked up a copy of the last American edition of *Man versus the State* published in 1916 by the house of Mitchell Kennerley in New York. This edition was edited by Truxton Beale, and Mr. Beale's personal card was still in the book, which appeared to be unread.

Herbert Spencer wrote four essays for *The Contemporary Review* in 1884 and brought them out in book form the same year, adding a Preface and a Postscript. A second edition appeared in 1892. Americans had to wait twenty-four years for their own version, and a vastly expanded version it was. Mr. Beale not only added five more Spencer essays to the original four, but he had each essay introduced by a distinguished public figure: William Howard Taft, Charles W. Eliot, Elihu Root, Henry Cabot Lodge, David Jayne Hill, Nicholas Murray Butler, Judge E. H. Gary, Harlan F. Stone, and Augustus P. Gardner. This blue ribbon crowd contributed 72 pages of text, which might be regarded as a representative sampling of American opinion in the pre-World War I era: the publication of this book in 1916 attests to the nation's individualism and its dedication to political and economic liberty.

The American mind was radicalized during the two decades between the wars; the older ideas were not rebutted, they were simply ignored as a new set of ideas swirled around them. A novel (for America) ideology was grafted into place during the thirties, and men like Nock were becoming superfluous.

It was of little consequence that I read Nock's praise of Spencer, but it was of great moment that the *Mercury* essay was also read by James Gipson of Caxton Printers in Boise,

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Idaho. Many years after the event Gipson told me that he wrote to Nock, whom he did not know but admired, to say that he'd never heard of Spencer's book but that if it was all Nock said it was he'd publish it—if Nock would edit and write a Preface. Nock agreed, added two essays to the original four, and the Caxton edition came off the presses in 1940. It got several reviews, an especially fine one from a well known literary man of the period, Benjamin De Casseres, who reviewed for the Hearst chain. The review took a full tabloid size page and appeared in papers coast to coast. And the book sold under two dozen copies the first year! The same dismal sales record was repeated each year until 1944 when the Los Angeles Chamber of Commerce under Leonard Read bought a thousand copies and laid its members under heavy persuasion to buy. The book sold moderately well during the fifties and sixties and went out of print a few years ago.

This handsome new Liberty Classics edition thus comes at an opportune time, and at a time when more and more minds are attuned to what Spencer has to say. The binding and paper are superb, and the price is friendly. This edition adds six Spencer essays to the original four, retains the Albert Jay Nock Introduction and has a helpful new Foreword by philosophy professor Eric Mack. There is also a full index, which earlier editions lacked.

Spencer championed a laissez faire society, where personal relations are free from feudal domination, where political power is not available to some to enrich themselves at the expense of others, where industry and trade enjoy fair competition and operate within the controls of the market. Spencer wants a society of equal freedom for all persons, and demonstrates that the needs of a commercial and industrial nation turn it away from war and colonialism, both of which he denounces fiercely. Freedom and justice within nations lead to peace between nations, and conditions are established wherein individual virtues may flourish.

I am impressed by the earnestness and moral passion which suffuse these pages. Spencer had caught a vision of what might be in store for mankind if its potential were free to realize itself. With this part of his mind he was an optimist and a believer in some sort of a planetary surge carrying mankind onward and upward. But he also had premonitions of bad times coming, and late in life he foresaw a process of rebarbarization looming just ahead. His forebodings have been amply realized in our time, but his great truths still await their day.

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IDEAS HAVE CONSEQUENCES

Any idea becomes our own as we are exposed to it and accept it and practice it and can explain it to friends—all done without coercion.

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